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USAID/Thailand Assistance Management Plan

(Main Volume)

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March 31, 1990

Dr. Carol Adelman
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Dear Carol:

Enclosed is USAID/Thailand's Assistance Management Plan which I understand will be reviewed by the Bureau during the week of April 30. I believe that this strategy document reflects the directions you have articulated for the Bureau in general and Advanced Developing Countries (ADCs) in particular. Looking back on all of the directions and options we have collectively explored over these past two years, I believe that this end product is the better for our having joined forces and worked on the same side of the table.

As the Bureau reviews this document and formulates issues on our proposed ADC strategy for Thailand, USAID would like to raise some program and management-related points for your consideration. With regard to the former, we would like to highlight the following:

A. Program Focus. We struggled long and hard to better focus the AID program in Thailand. We conducted seven studies on topics suggested by the indicator analysis in the ADC Concepts Paper. The three substantive program areas chosen -- human capital (particularly for the application and management of technology), financial markets and environment - should help Thailand remain competitive in the international marketplace and should provide many opportunities for the United States to participate in the resulting growth. Given the evolving political economy of Thailand, addressing tough economic issues through more pluralistic approaches is a necessity.

B. Financial Markets. Recognizing the importance of financial market issues for Thailand in the decade ahead, as well as AID/Washington's interest in these issues, we have picked this area as one of our three substantive foci. But there are some realities which will limit our future role in this sector. Thai banking and securities markets are booming, and Thai indicators in these areas now compare

favorably with those of industrialized countries and the Asian NICs. Even if the Thai banking and securities trading systems were deregulated (which observers doubt will happen in the near future), it is highly questionable whether U.S. financial institutions are willing or able to compete with aggressive Japanese institutions in this market. Our efforts in this area could, in effect, provide greater entry for Japanese firms than for our own.

Other areas of financial intermediation are underdeveloped and perhaps offer more opportunities for U.S. participation. These include long term debt instruments (bonds and bond markets), leasing, and pension and insurance funds. Bonds and leasing are particularly relevant to Thai ability to finance infrastructure and utilities expansion. Pension and insurance funds, of course, will help meet rising demand for social services. In areas such as financial leasing, scope may exist for tie-ins with U.S. equipment manufacturers. And, as noted in the Price Waterhouse study, scope may exist for U.S. firms in managing Thai pension funds.

USAID concludes that the greatest benefit to the U.S. as well as Thailand from opening Thai financial markets can probably be found in helping to develop markets for long term debt instruments, leasing, and pension and insurance funds. Accordingly, we have narrowed our financial markets focus to those aspects of financial markets which help with infrastructure and social services expansion. During the AMP review, we would like to explore with you the implications of this focus, to ensure that the Mission and AID/W are in agreement on the trade-offs implicit in our plans.

On the organization and management side of the AMP, we would like to draw your attention to the following:

A. Further Downsizing of USAID/Thailand. We have promised AID/Washington that we would develop a detailed plan for the further downsizing of this Mission, (both USDH and FSN staff), and submit it for your review. In order to do so, we need your approval of our program strategy and two additional decisions. The first decision is the acceptability of our proposal to build a master contractor relationship for the first half of the decade. If affirmative, we can develop a plan which would allow continuing reductions in USAID staff in the early 1990s. If, on the other hand, AID/W objects to this approach, substantial additional staffing reductions probably could not be realized until mid decade.

The second decision relates to the regional features of this Mission: it is impractical to downsize our Controller, Executive Office and Regional

Procurement Offices (which house a substantial portion of our total staff) until Washington decides whether to retain Bangkok as a regional center. We recognize the difficulty of making this decision now, but urge AID/W to recognize that the lack of a decision makes it more difficult for us to finalize our management plans.

B. The Pace of Restructuring. In our search for appropriate new directions in Thailand, we have come up with a strategy which departs in substantial measure from the program we have been designing and implementing since 1985. Also, in searching for more efficient ways of delivering assistance, we have had to come up with new ways of doing business which depart substantially from 40 years of past practice. As we began restructuring and moving in new directions this fiscal year, we have become acutely aware of RTG bureaucratic resistance which objects not so much to the new program directions and new management approaches as it does to the pace at which we are pushing for change. We have found this to be a most delicate balance. We don't want to destroy relationships which could undermine our ability to carry out an ADC strategy in Thailand effectively; yet we cannot accept too slow a pace of change. This dilemma comes out most clearly in attempting to redirect our EPD II, Science and Technology for Development and MANRES projects. There are no simple solutions to this dilemma. We simply ask Washington understanding and patience.

Before you review the Assistance Management Plan itself, I'd like you to understand that we have yet not shared it with the Royal Thai Government. While we have had many discussions with key decision-makers over the past two years on the likely future directions of our program here and believe we have a fairly good notion of their thoughts, we elected not to share this plan until you had approved it. (This plan has, however, been fully reviewed and concurred in by the Ambassador and key Embassy staff.) Once our program week has been completed and key decisions made, I'd like to map out with you a strategy for obtaining Royal Thai Government concurrence.

I look forward to your thoughts and discussions on how we mount the Agency's first-ever Advanced Developing Country Strategy.

Sincerely yours,



John R. Eriksson
Mission Director

TABLE OF CONTENTS
ASSISTANCE MANAGEMENT PLAN FOR THAILAND

	Page
Executive Summary	
I. Snapshot 1990: The U.S.-Thai Relationship	1
II. The 1990s: Growth and Opportunity	
A. The Concept: Integration with the World Economy	2
B. Thailand in the World Economy	3
C. Thai Barriers to International Economic Integration	4
Diminish Growth Prospects	
D. Building the Case	
1. The Aggregates	4
2. Thai Agriculture in the World Economy	7
3. Thai Industry in the World Economy	8
4. Thai Services in the World Economy	11
5. Conclusions	14
E. Political Economy	14
III. Targeting the USAID/Thailand Strategy	
A. Applying and Integrating Program Objectives	15
B. Identifying Program Content	16
C. A Menu of Potential Interventions	19
D. The Menu in the Context of On-going Projects	19
E. New Program Mechanisms	20
IV. Management Issues and Options	
A. Short-term Management Issues	23
B. Longer-term Management Issues	25
V. Conclusion	29
 ANNEX A - Strategic Logframe	
ANNEX B - A Proposal to Further Streamline Mission Operations: 1990-1995	
ANNEX C - Capital Projects Assistance	
ANNEX D - Research Agenda (Separate Volume)	

EXECUTIVE SUMMARY

Accelerated change in geopolitics and international markets during the 1980s has created clear opportunities in the 1990s for enhanced political and economic freedom in many parts of the world. Developments in Thailand during the 1980s mirrored global change: Thailand is a more democratic and much more economically dynamic nation in 1990 than it was in 1980. The extraordinary growth of the Thai economy over the last several years suggest that Thailand has entered a period of steady social and economic progress. Coupled with the diminution of geopolitical tensions in Southeast Asia, this progress has already changed both the U.S.-Thai relationship, and the nature of Thailand's development issues.

With an expanding trade and financial presence in the international marketplace, Thailand can now be considered an advanced developing country (ADC). As an ADC, Thailand is of more direct economic interest to the U.S. because Thai progress creates favorable conditions for expanded U.S.-Thai trade and investment which can support both countries' long-term growth. Thailand's growth path in the 1990s will require ever broader and deeper integration with the world economy. Because continued Thai progress on this path is now of direct interest to the U.S., both countries have clear interests in minimizing continuing constraints to expanded Thai integration with the world economy.

Continuing Thai competitiveness in a challenging international economic environment depends on Thai capacity to maintain cost competitiveness in labor-intensive production, while concurrently moving up the product cycle with more technology-intensive production. Three areas are critical to Thailand's ability to maintain competitiveness over the decade:

- expanding the quantity and improving the quality of Thai human capital, particularly to increase the value-added of Thai products through the application and management of technology;

- facilitating the ability of international and domestic financial markets to meet rising demand for infrastructure and social services; and

- ameliorating environmental degradation which now increases costs and diminishes growth prospects in key industrial and tourism sectors.

Both public and private sector Thai leaders see these needs, but in many cases political economy issues hamper their ability to address them. Political consensus on key problems and their solutions is more likely to emerge from credible representative and advocacy groups pursuing expanded avenues for political and economic dialogue.

USAID will mobilize the expertise and resources of the U.S. private sector to assist the Thai in addressing these needs, and to capitalize on the opportunities this dynamic Asian economy presents. Merging these strategic themes, the Mission has identified three key program purposes or objectives:

- improving the efficiency and productivity of selected aspects of the Thai economy (human and technological capital, financial markets, and environmental management);
- encouraging a sustainable political consensus on steps required to address these key problem areas; and
- expanding U.S.-Thai trade and investment, and collaboration on global concerns of particular mutual interest.

Meeting these objectives will enhance Thailand's prospects for broader and deeper integration with the world economy in the 1990s, thus ensuring the sustainability of Thai growth in the next century. Success will also help to provide the U.S. with an open, mature and responsible trade and investment partner in the decades ahead.

In the short-term, implementation of this strategy requires:

- developing strong links between AID and the U.S. and Thai private sectors through existing and new program mechanisms, i.e., the Trade and Investment Support Program and the Thai Growth and Investment Fund, and related emerging linkage organizations, i.e., Joint U.S.-Thai Business (JUST Business) and Managing U.S.-Thai Linkages (MUST Link);
- portfolio restructuring to bring program and management resources in line with strategic objectives; and
- streamlining portfolio management to facilitate drawdown of the Mission pipeline and staffing reductions.

By mid-decade, on-going projects will have largely been completed, except for the Thai Growth and Investment Fund. A small AID representative office will still be needed to manage continuing government-to-government linkages. A small portion of the Thai Growth and Investment Fund would remain with the AID presence. JUST Business will be a self-supporting, private U.S. corporation, focused on enhancing the climate and incentives for U.S. trade and investment with Thailand. MUST Link, having derived from the Thai Growth and Investment Fund, will be constantly canvassing the Thai economy and matching Thai needs with U.S. expertise. These organizations will be working synergistically to provide an arena in which U.S. ideas, policies and products can compete successfully with those of other nations, in Thai corporate corridors as well as government councils.

I. Snapshot 1990: The U.S.-Thai Relationship

A short 20 years ago, the U.S.' overriding objective in Thailand was to "prop up the domino" against the winds of Communist insurgency sweeping Indochina. Now, the "teetering domino" is the most economically dynamic nation in Asia. Neighboring countries which fell prey to Communist insurgencies now look first to Thailand for support in revitalizing their failing economies. The extraordinary growth of the Thai economy over the last several years, and projections for the coming years, suggest that Thailand has entered a period of sustained social and economic progress. Although not without problems, the Thai now appear to have amassed the resources, will, and momentum to be the masters of their own economic fate.

As Thailand changed over the 1980s, so did the U.S.-Thai relationship. Although individual regional security issues and humanitarian concerns remain, they no longer drive the relationship. In their place, economic issues assumed preeminence. As Thailand reached for sustainable growth, and as U.S. economic assistance plummeted with lessened threats to Thai security, trade and investment replaced aid as the dominant element of the economic relationship.

Since the early 1980s, USAID has assisted the Thai to address some of the emerging problems of an industrializing economy: inadequate technical capacity to remain competitive in changing world markets; lagging employment generation, particularly in rural areas; and the serious environmental degradation which has accompanied rapid growth. Even now, when Thai economic growth appears sustainable for at least the medium term, no one seriously challenges the relevance of these problems to the future of the Thai economy. But many USG decision-makers challenge USAID/Thailand's approaches to these problems. Their challenges reflect new perspectives:

--In view of its own budget deficit, negative trade balances and other domestic concerns, the U.S. should no longer devote limited public resources to the developmental needs of countries which have achieved rapid growth. With Thailand's budget surplus being applied to early debt retirement, a manageable Thai trade deficit easily offset by tourism earnings and capital inflows, and only 24% of the population living below the poverty line, the Thai can now finance most of their own development needs.

--Over the last few years, development economists have synthesized the lessons of the last two decades' economic successes and failures. Their conclusions are simple and economically orthodox: there is a high correlation between economies' openness to the flow of goods, services, capital and ideas and their success in the international marketplace. Countries like Thailand sustain growth by allowing their economies to be pulled forward by gains from trade, investment, and other opportunities within the world economy. They can ensure the sustainability of growth by pursuing ever broader and deeper integration with international markets.

Moreover, although the relationship is more difficult to quantify, it is increasingly well accepted that democratic societies have a better chance of integrating themselves fully with the world economy than those which deny freedom of choice within their own political and economic milieu.

--Countries become advanced developing countries (ADCs) by expanding their trade and financial presence in the international marketplace. As ADCs, they are of more direct interest to the U.S. than are LDCs which have yet to make their presence felt. The success of ADCs such as Thailand creates new trade and investment opportunities which expand growth prospects for the rest of the world, as well as for Thailand. Having invested substantially in Thai success, the U.S. should now benefit from the opportunities.

In the face of these new perspectives, AID now has a choice: 1) recognize development success in Thailand, phase down on-going programs, and divert scarce AID resources to other countries; or 2) re-orient its objectives and resources in Thailand toward encouraging even broader and deeper Thai integration with the world economy, particularly by nurturing the new trade and investment-dominated U.S.-Thai economic relationship. AID has chosen the second option because it better serves both U.S. and Thai economic interests.

II. The 1990s: Growth and Opportunity

A. The Concept: Integration with the World Economy Sustains Growth

In its recent "Concept Paper - An Advanced Developing Country Strategy for Thailand," the Asia/Near East Bureau outlined a new paradigm for AID efforts in ADCs -- a framework which reflects more direct U.S. interests in ADCs, and open markets and open societies themes. The paper posited that:

--Countries achieve sustainable growth through integration with the international marketplace.

--ADCs would be identifiable by their expanded trade and financial presence in the world economy.

--Although countries can be identified as ADCs, no country is perfect in its openness to international market forces.

--While international trade, investment and finance policies are an essential element of each country's ability to integrate more fully with the world economy, they are not the only factors affecting this integration. Inadequacies within domestic economies, e.g., shortages of skilled labor or infrastructure deficiencies, also inhibit integration by diminishing competitiveness in the world economy.

--With individual ADCs, the U.S. has clear interests in reducing or eliminating barriers to international economic integration. U.S. interests in these issues no longer derive exclusively from a concern with the sustainability of host country growth; they now also derive from U.S. desire to realize the potential gains inherent in enhanced bilateral trade and investment opportunities.

--The concept of integration with the world economy recognizes the preeminent role of the private sector in sustaining economic growth. The essential economic functions of government are to establish and maintain appropriate policy, institutional, legal and regulatory structures, to facilitate private sector response to international market forces, and to provide infrastructure, basic education, or other public goods which cannot be effectively provided by the private sector. By controlling more than these areas, government hampers international economic integration.

--Just as some national public goods can only be fashioned by government, some international public goods, e.g., an open world trading system represented by GATT and other multilateral groups, and global environmental protection, require international governmental cooperation. As ADCs expand their role in international markets, the U.S. and other developed nations want these new players to share the responsibilities as well as the benefits of international economic integration.

--Finally, since assuming an international leadership role in the post-war period, the U.S. has consistently championed free markets, supported and sustained by democratic societies. Recent events in Eastern Europe and elsewhere suggest that these are also the preferred values of the world's people. Thai adherence to these values, and resulting economic success, have been well noted by neighboring countries. It is important to future U.S. political and economic interests in Asia that the U.S. forge a new, mature partnership with the Southeast Asian nation whose values more closely resemble those of the U.S. This partnership, built on the primacy of mutual economic interests, will not only ensure an abundance of future economic opportunities for both Thailand and the U.S. It will also provide a forum for the resolution of inevitable differences, and an arena in which U.S. ideas, policies and products can compete successfully with those of other nations, in Thai corporate corridors as well as in government councils.

B. Thailand in the World Economy

Hypothesizing that ADCs would be identifiable by their expanding presence in the international marketplace, the Concepts Paper assessed ANE countries' relative integration with the world economy in: export growth, composition and diversity; direct foreign investment inflows; income on foreign investment; bank transactions; and private borrowing from foreign sources. As expected, Thai indicators more closely resembled those of the dynamic

East Asian economies than those of the more closed economies of South Asia and the Middle East. By this measure, Thailand is now an ADC.

C. Thai Barriers to International Economic Integration Diminish Prospects for Fully Sustainable Growth

Beyond identifying ADCs, the Concept Paper posited that countries' domestic productive capacity, and their performance in institutional and human capital development, are critical to their ability to integrate themselves with the world economy, and thus sustain growth. The Paper assessed Thailand against an additional range of domestic productive capacity and institutional and human capital development indicators. This assessment revealed continuing weaknesses in Thai capacity for broader and deeper integration with the world economy. Although productive capacity is solid, financial markets remain narrow. Natural resources are being rapidly depleted and severely degraded. While Thai health and nutrition status surpasses other ANE countries, human capital indicators lag. Moreover, the Thai institutional structure remains dominated in key infrastructure and utilities sectors by public institutions; as a result, infrastructure and utilities are in short supply. The Concept Paper concluded that these deficiencies might guide a future AID program in Thailand.

D. Building the Case

In developing this Assistance Management Plan, the Mission sought first to confirm the Concept Paper's preliminary conclusions regarding barriers to further Thai integration with the world economy. The following sections identify current trends, project where these trends will lead, and assess factors likely to constrain Thailand's growth path over the coming decade. (All data are drawn from the Bank of Thailand, the IBRD's World Development Report (1989) or the data base developed by the Thailand Development Research Institute (TDRI) for their recent conference "Thailand in the International Economic Community".) The overall economy is examined first, and then each of the major economic sectors (agriculture, industry and services) for sources of and constraints on growth. (Readers preferring to skip this detailed analysis will find a summary of this section's conclusions in Chart 1, which appears after page 14.)

1. The Aggregates

Perhaps the strongest evidence of Thailand's expanding integration with the world economy is the congruence of Thai economic growth patterns during the 1980s with those of the international economy. In the early part of the decade the world economy in general, and Thailand in particular, experienced prolonged structural adjustment as successive oil shocks and tumbling world commodity prices led to heightened currency volatility and worldwide recession. Like other ultimately successful countries, Thailand's response was to adjust the domestic economy to the international market, rather than

retreat behind protectionist walls. Thai decisions in the early 1980s to devalue the baht, effect restrained fiscal policies, and limit public borrowing to the most productive investments laid the foundation for strong and rapid recovery when international markets turned favorable in the latter part of the decade. As a result, Thailand was well positioned to seize new opportunities offered by the world economy since 1986: a sharp drop in oil prices; rising prices for Thai commodity exports; currency realignment in the industrialized countries which strengthened the competitiveness of the baht; and, perhaps most importantly, the accelerating flow of labor-intensive production and investment out of Japan and the newly industrialized countries of East Asia into countries with trainable low cost labor, favorable economic policies, and a reasonable measure of supporting infrastructure and utilities.

a. Trends of the 1980s

--From 1986 onward, GDP growth averaged 8.9% per annum. Combined with a drop in the population growth rate from 2.2% (1984) to 1.7% (1989), GDP per capita reached \$1100 by the end of the 1980s.

--Shifts in sectoral shares of GDP accelerated. Between 1984 and 1989, agriculture's share of GDP declined from 19.4% to 15.9%, while industry's share rose to 32% and services' to 52.1%. (Graph 1)

--Sectoral shares of employment shifted as well. Between 1984 and 1989, agriculture's share of employment declined from 69.7% to 61.9%. (Graph 2)

--Exports were the engine of growth in the late 1980s. From 1984 to 1988, exports expanded by an annual average of 23%.

--Exports financed strong import growth. In 1989 alone, merchandise imports grew by 28%. Only 55% of imports in the early 1980s were intermediate products, raw materials and capital goods; by 1989, 69% were in these categories. This trend will support future export-led growth.

--A trade deficit of 7.2% of GDP, offset by strong service receipts and net transfers, produced a 1989 current account deficit of 3.2% of GDP. (Graph 3)

--The ratio of gross national savings to GDP rose steadily. Between 1984 and 1989, savings as a percentage of GDP expanded from 19.9% to 25.3%.

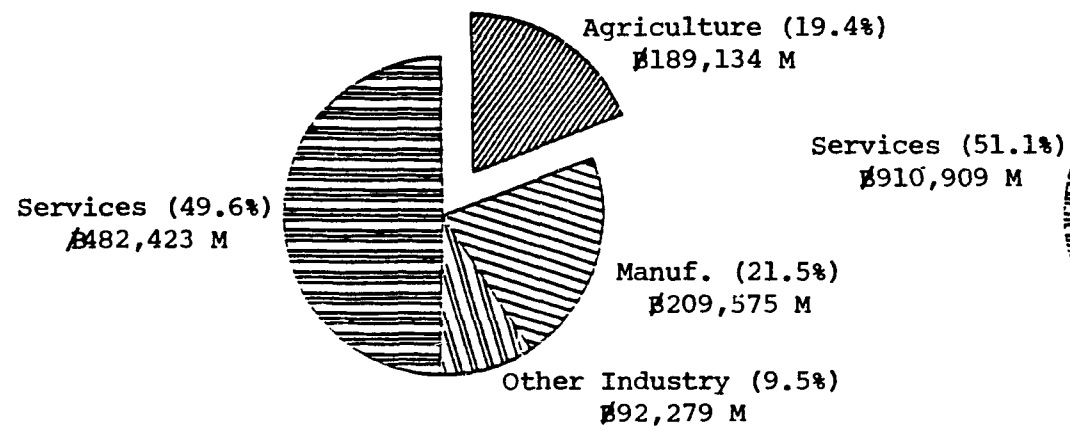
--Similarly, the ratio of gross domestic investment to GDP rose from 24.9% (1984) to 29.9% (1989). Despite strong savings growth, the savings/investment gap declined only slightly, from 5% of GDP (1984) to 4.6% (1989).

--Government's demand on national economic resources declined sharply. Between 1984 and 1988, the ratio of government expenditures to GDP dropped from 18.7% to 15.4%, while the ratio of public debt service to export

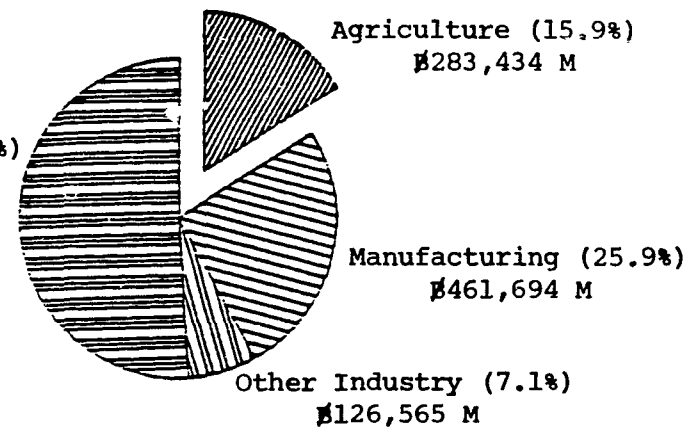
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GRAPH 1: THAILAND GDP SHARE BY SECTOR

Total GDP = ฿973,412 M
Year 1984

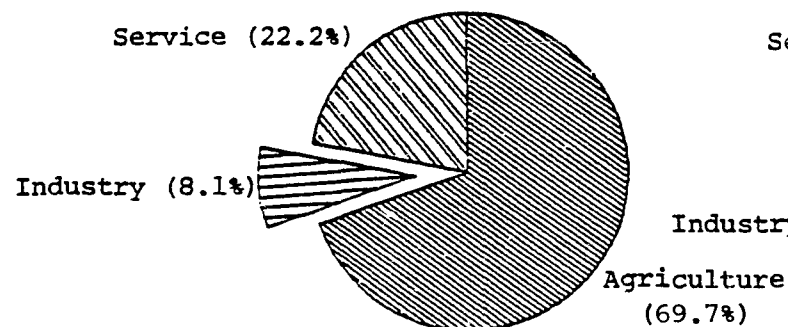


Total GDP = ฿1,782,601 M
Year 1989

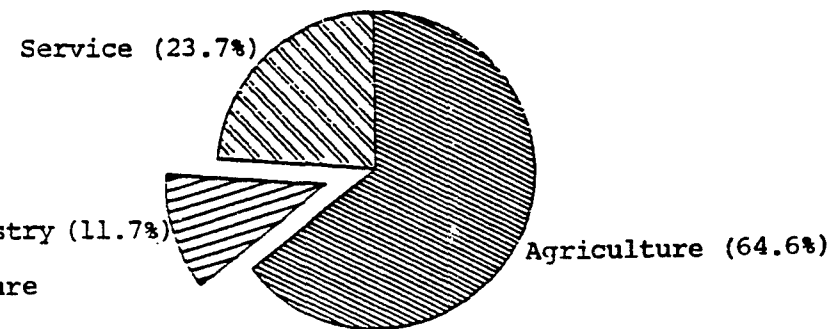


GRAPH 2: THAILAND EMPLOYMENT PATTERN

Year 1984

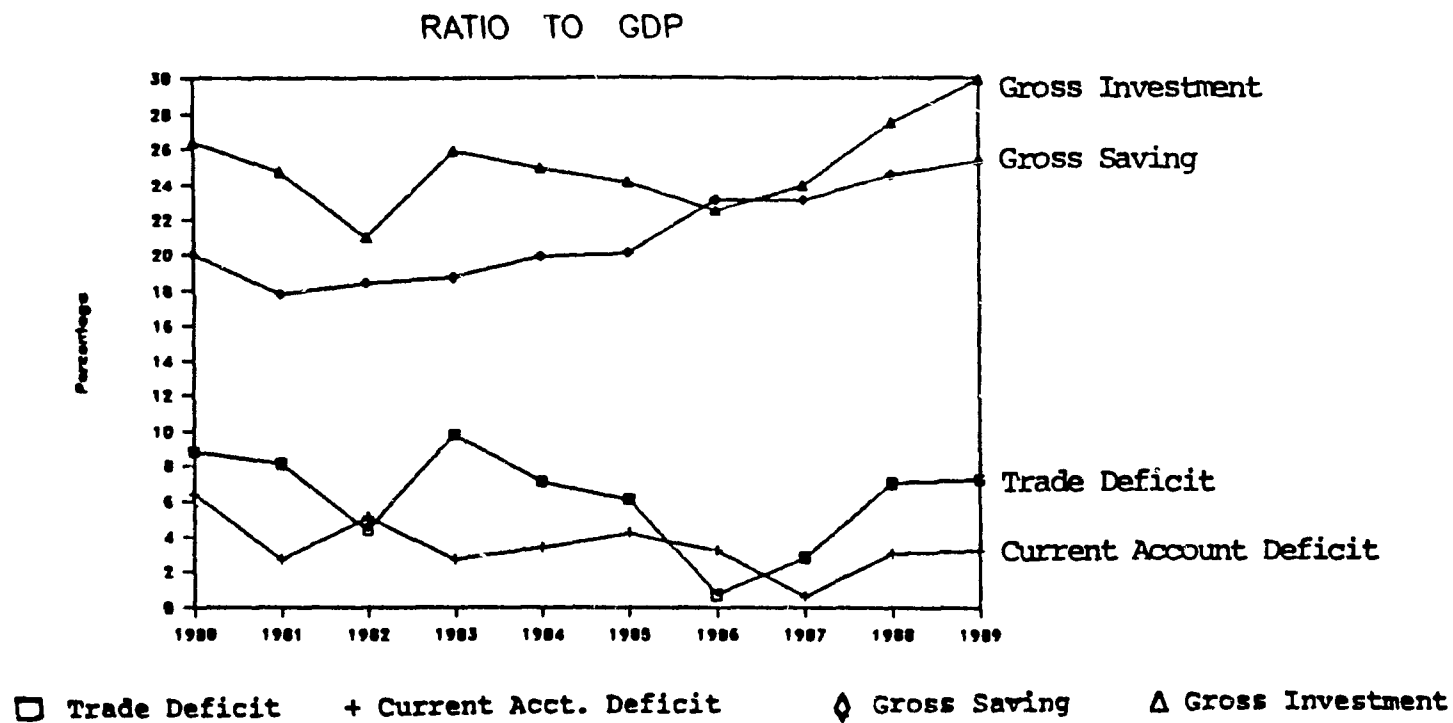


Year 1987



13

GRAPH 3: SAVINGS, INVESTMENT, TRADE DEFICIT
AND CURRENT ACCOUNT DEFICIT AS A
PERCENTAGE OF GDP



14.

earnings declined from 10.4% to 7.6%. In 1988 and 1989, the RTG registered its first budget surpluses in recent history.

--1988 net capital inflows were 38% greater than those of 1980. Shifts in the form of inflows were more pronounced. From 1981 to 1985, 84% of capital inflows were foreign loans, 60% of which were to the public sector. From 1986 to 1988, 36% of inflows were loans, of which 8% was to the public sector. 64% of inflows were direct (38%) or portfolio (26%) investment. (Graphs 4 and 5)

b. Prospects and Constraints of the 1990s

--TDRI's modelling projects base case annual GDP growth of 8.3% between 1991 and 1995, and 5.9% from 1995 to 2000. With a projected decline in the population growth rate to 1.3%, by 2000 GDP per capita will approach \$1800.

--By 2000, agriculture will provide only 10% of GDP. Agriculture's decline will be offset by nearly equal expansion of industry and services. Migration of labor out of agriculture will increase productivity across the economy, but labor productivity will be highest in industry.

--Growth in merchandise exports will slow to around 15% per annum by mid-decade, with decreasing growth in agricultural exports balanced by continued strong growth in manufactures.

--Continued export expansion is projected to shrink the current account deficit to only 2% of GDP by 1992.

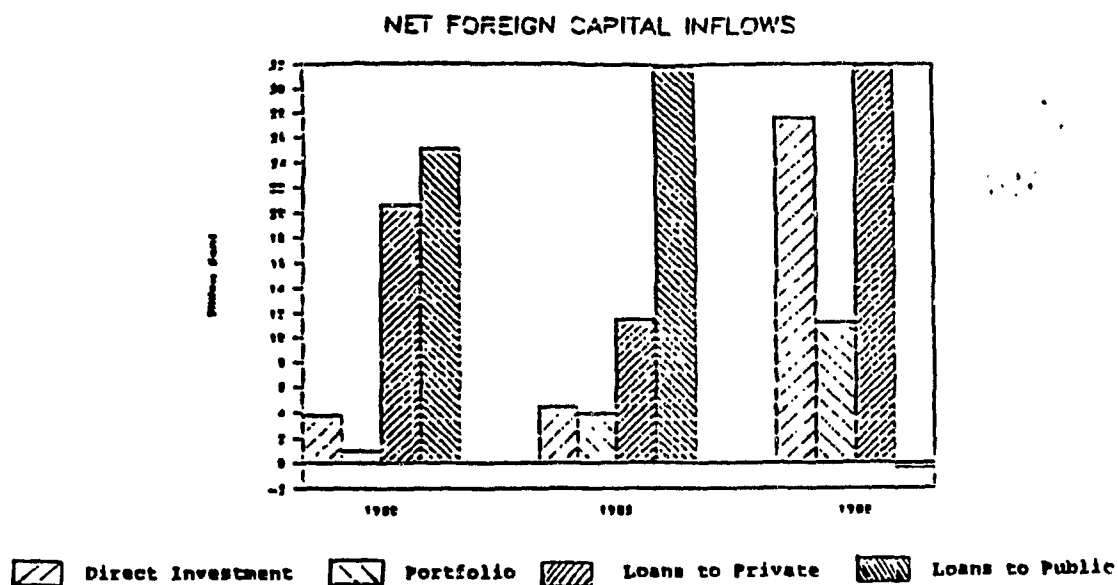
--Falling population growth is changing the demographic profile. By 2000, 42% of the population will be of working age, compared with only 30% in 1985. Experience elsewhere suggests that this trend will support capital deepening, stimulating domestic savings and investment growth. It is unclear whether the savings-investment gap can be closed in light of growing investment demand; nevertheless, debt repayment ratios are low and falling.

--Direct foreign investment (DFI) will grow at declining rates, as competition among ASEAN and South Asian nations heightens for investment from Japan and the Asian NICs which in 1988 provided 80% of Thai DFI inflows.

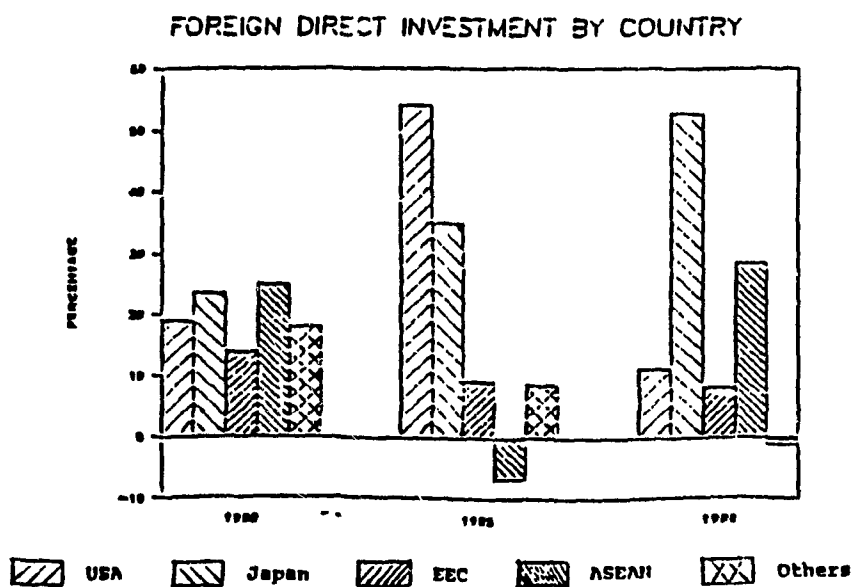
--Government's call on national economic resources may decline further, depending on decisions made early in the decade regarding the government's role in financing infrastructure, utilities, and social service investments.

--High export growth, strong investment demand, high capital inflows, low excess capacity in critical industries, and growing consumption demand are creating strong inflationary pressures which could dampen price

GRAPH 4: THAILAND NET CAPITAL INFLOW



GRAPH 5: THAILAND FOREIGN NET DIRECT INVESTMENT



competitiveness of Thai exports in the 1990s. Moreover, rising inflation could destabilize the domestic economy where accelerated growth has aggravated income disparities in the short-term.

Nonetheless, aggregate data paint a relatively optimistic picture of Thai prospects in the 1990s. However, a deeper look into the economy is needed to identify shifting sources of growth and specific constraints and opportunities which will shape the economy over this period.

2. Thai Agriculture in the World Economy

Despite its declining share of GDP, many Thai still see the agricultural sector as a pillar of the economy and a source of social stability in a country where, despite accelerating rural-to-urban migration, 65% of the population will still live in communities of less than 50,000 people by the turn of the century. Unlike many countries, Thai agriculture is reasonably diversified, which sustains some measure of growth even when declining world prices diminish returns to primary commodity exports. (Graph 6)

a. Trends of the 1980s

--Since 1985, high world prices for rice, rubber, and maize and guaranteed access to the European market for tapioca stimulated expanded production. But while the value of agricultural production grew by 8.5% in 1988, agriculture's share of merchandise exports dropped to 31%, compared with 51% in 1984.

--Livestock and fisheries comprise 30% of agricultural production. Between 1970 and 1988, poultry, egg, and swine production and commercial fish tonnage expanded by around 6% annually. From 1986 to 1989, prawn exports alone grew 54% annually. Despite growth in cultivated fish and prawns, 90% of marine product value still comes from capture rather than culture.

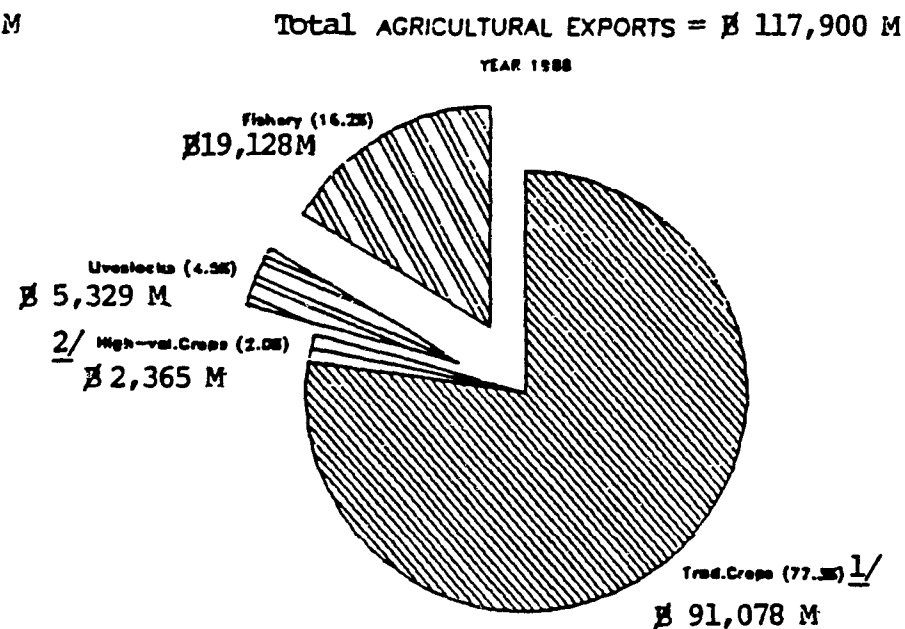
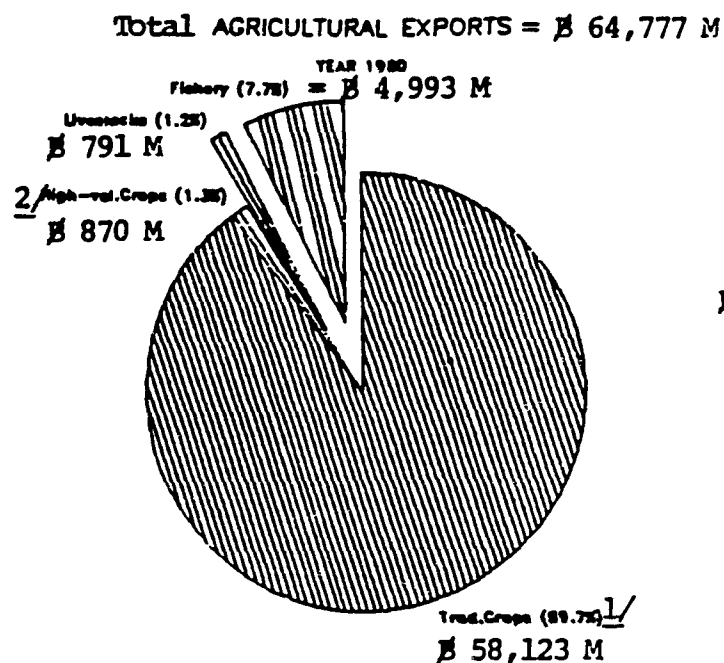
--Forestry subsector growth is declining because of the depletion of Thailand's once-abundant forest reserves.

--Over the 1980s, the share of direct foreign investment directed toward agriculture declined from 5.4% to less than 1%.

b. Prospects and Constraints of the 1990s

--If world prices for major crops fall by the magnitudes the World Bank now projects, growth in the crops subsector will slow significantly. Export tonnage will probably rise early in the decade, but lower prices will suppress production over the longer term. Competition for markets in primary commodities such as rice will heighten, as lower cost producers of Indonesia and Vietnam expand exportable surpluses.

GRAPH 6: THAILAND AGRICULTURAL EXPORTS



1/ Includes rice, rubber, maize, tapioca, mungbean, sorghum, cotton, kapok and tobacco.

2/ Includes fresh fruits, orchids and coffee.

--Thailand will retain strong comparative advantages in the poultry, swine and fisheries subsectors.

--Higher value horticultural crops will be a source of export growth. Tropical fruits and flowers are now only a small proportion of agricultural exports, but Thailand's reputation for quality products should create export markets if new transport and preservation technologies are adopted.

--Expanding the export potential of the horticultural, livestock and fisheries subsectors will require greater use of skilled labor, capital and technology than was needed for traditional crop exports. Sophisticated preservation, processing and packaging requirements will spur new agro-industries to optimize comparative advantages in these sectors. With minimal DFI for agriculture, capital must come from domestic sources.

--Thai capacity to obtain, adapt, disseminate and develop needed technologies is limited. RTG-sponsored research has largely focused on traditional crops; private sector research has focused on improvements in seeds and feeds, areas in which new technologies can be protected profitably. Legal questions regarding the protection of biotechnology and preservation processes may limit private investment in these areas.

--Infrastructure deficiencies, particularly inadequate roads, rails and air cargo space will limit Thailand's ability to export agricultural products which need rapid and sensitive handling to ensure quality.

--Markets for Thai animal, fruit and flower products are in the industrialized countries which will maintain protectionist policies toward agricultural imports. Because these markets are increasingly sensitive to environmental concerns, the marketability of Thai produce will be diminished by concerns about water pollution, high pesticide and fertilizer use, or unsafe preservation practices. Appropriate regulatory schemes, and reliable certification of standards and quality would enhance agricultural export prospects over the longer term.

If Thailand can mobilize domestic capital for agro-industry, enhance agricultural technological capacity and meet high standards in industrialized country markets for higher value agricultural imports, and if U.S., Japanese, East Asian and EEC markets allow greater Thai market penetration, the agricultural sector can remain a continuing, although much transformed, source of export-led growth in the year 2000.

3. Thai Industry in the World Economy

Like many countries, Thailand's early industrial growth derived from import substitution behind high tariff walls. As the domestic market became saturated, government policy in the 1970s tilted toward export promotion.

Resulting industrial export growth was based on natural resources; related labor-intensive industries also evolved, e.g., textile and rubber products.

a. Trends of the 1980s

--Between 1984 and 1988, the share of manufactured goods in total exports grew from 43% to 66%.

--Thailand's industrial product line diversified and shifted. From 1980-1985, leading manufactures were leather products, pottery, glass, and chemicals. From 1985 to 1988, leading manufactures were leather goods, transport equipment, plastics, electrical machinery, rubber products, and wearing apparel. From 1984 to 1989, the five leading manufactures comprised only 30% of manufactured exports, an important indicator of industrial and export diversification. (Graph 7)

--Recent rapid export-led industrial growth derives from real and effective baht depreciation and the dramatic increase in the flow of Japanese and East Asian capital into Thailand. In 1988, DFI was 170% greater than in 1984.

--61% of 1985 DFI was for trade and construction. By 1988, these categories accounted for only 21%; industry absorbed 58%. TDRI's analysis of Board of Investment-approved projects shows that from 1986 to 1988 the percentage of DFI attributable to utilization of Thai natural resources dropped from 33% to 28%, while the percentage attributable to regaining or maintaining cost advantages rose from 47% to 64%. Most DFI inflows for industry were in electrical appliances, chemicals, metal and plastic products.

--40% of rising foreign portfolio investment in the late 1980s was in the industrial sector.

b. Prospects and Constraints of the 1990s

--TDRI projects strong manufacturing growth for the 1990s: 9.3% for 1988-1991; 10.9% for 1992-1996; and 10.7% for 1997-2000. In the early 1990s, leading products will be canned fruits, other processed foods, garments, and construction materials. In the late 1990s, export industries with higher skilled labor and technology content, e.g., electronic goods, chemical and plastic products, and auto parts, should be leading growth sources.

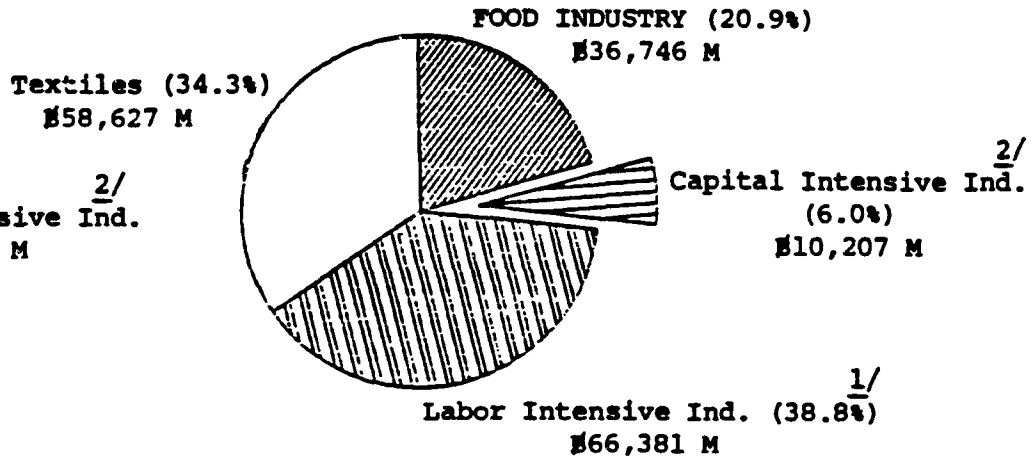
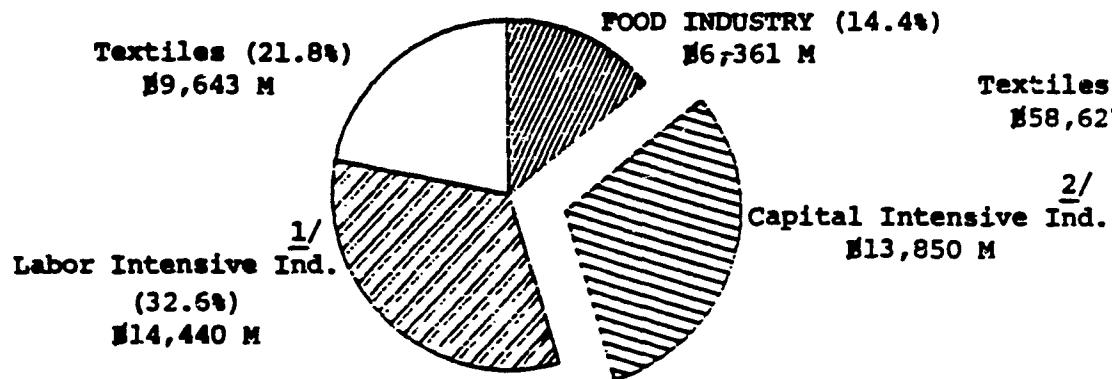
--If, as many believe, Japan and the Asian NICs face greater adjustment as a result of domestic market liberalization over the 1990s, Thai industry should benefit from continued, strong inflow of capital, management, marketing and technical skills from Japan, Hong Kong, Taiwan and Korea.

--Over the past two decades, Japan, the U.S. and the EEC absorbed over half of all Thai exports. But while exports to Japan declined from 28% to 15% of total exports from 1975 to 1987, exports to the U.S. and EEC rose from 27%

GRAPH 7: THAILAND MANUFACTURED EXPORTS

TOTAL MANUFACTURING EXPORTS = ฿44,294 M
YEAR 1980

TOTAL MANUFACTURED EXPORTS = ฿170,961 M
YEAR 1988



^{1/} Includes integrated circuits, leather, wood, jute products, gems, artificial flowers, and furniture.

^{2/} Includes mineral industries, iron and plastic products. Drop in value of exports due to large reduction of mining products.

to 40% in the same period. With markets concentrated in the industrialized countries, Thailand is vulnerable in the 1990s to protectionism, particularly for products subject to quotas and voluntary export restraints.

--With export growth increasingly reliant on the flow of capital and technology from Japan and the Asian NICs, Thailand is vulnerable to shifts in capital flows toward other low labor cost countries. Indonesia's recent success in attracting DFI illustrates this concern. Of total 1988 DFI by Japan and Asian NICs in ASEAN, Thailand gleaned 52% and Indonesia 37%. In the 1990s, South Asia and China, with a modicum of political and economic stability, could also siphon off investment resources.

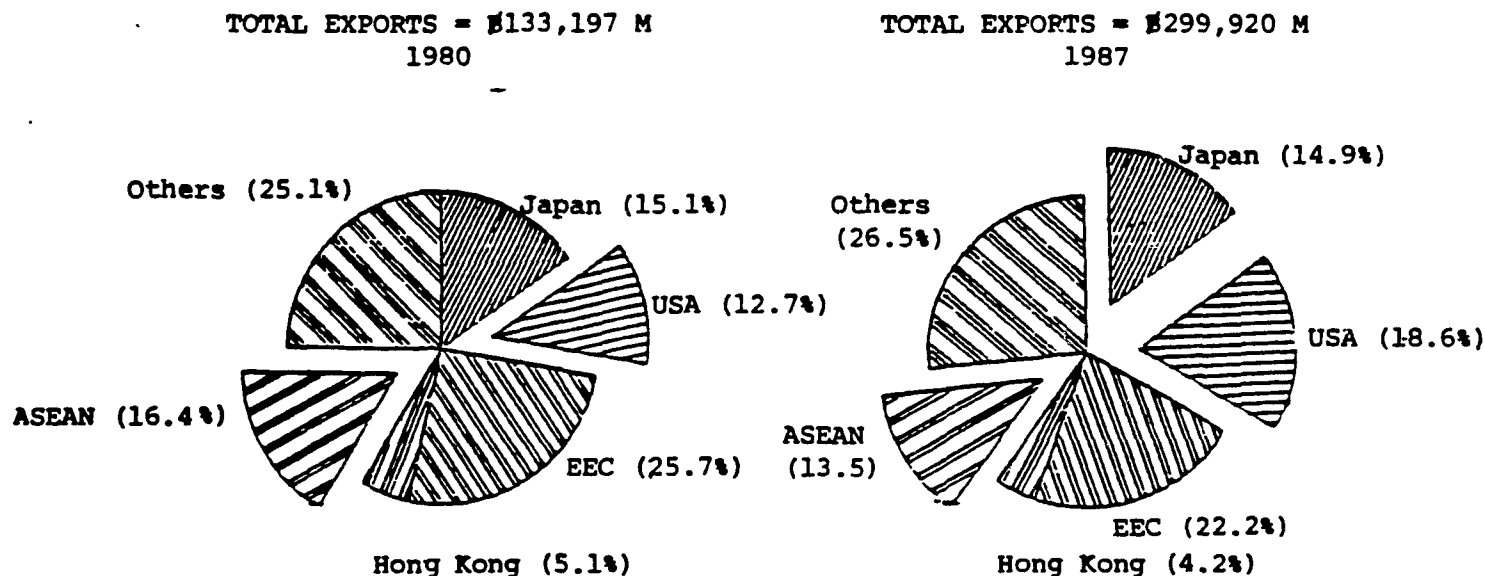
--The 1990s offer Thai industry opportunities as well as concerns. Income and demographic trends in Thailand and throughout East Asia signal growing demand for Thai products. A higher percentage of the Thai population in the labor force will increase disposable income, and generate domestic demand for products such as consumer electronics, autos and auto parts. New or expanded markets may emerge in ASEAN, in the NICs, and even in Indochina.

--Export-led industrial growth in the 1990s will derive from two separate, but ultimately overlapping, trends. In the short-term, Thailand must maintain competitiveness in labor-intensive production; this competitiveness can only be maintained by keeping input costs down through efficient use of resources. Concurrently, Thailand must prepare for the inevitable move up the product cycle, which has just begun in selected industries.

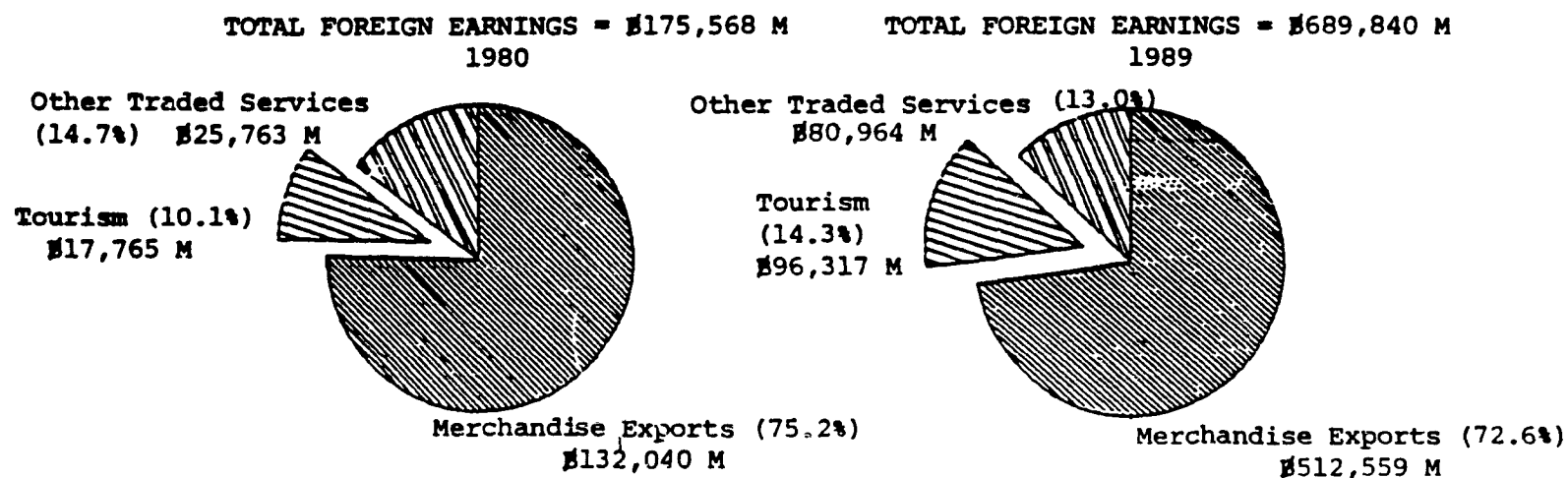
--Maintaining labor intensive export growth in competitive international markets requires close attention to production costs, at a time when Thai labor is becoming more costly relative to its competitors. Staying competitive with higher labor costs requires higher value added per worker, putting a premium on labor force skills and technological adaptation.

--Experience in the East Asian NICs shows that rising labor costs do not doom competitiveness in labor-intensive industries if other conditions promote cost effectiveness. Unfortunately, ancillary Thai conditions also reduce cost competitiveness. Infrastructure shortfalls cause transport delays, inadequate communications, and port congestion. Shortages of electrical power are expected in the 1990s, unless averted by early and substantial power investments. Air and water pollution, and growing water shortages in urban areas, require mitigation investments which increase production costs. Efforts to limit urban pollution will force industrial growth into areas served by poorer roads, strained rail capacity, and inadequate air facilities. By some estimates, transport congestion and environmental pollution now cost Thailand over one percent of GDP. These costs must be overcome by additional value added if Thai industry is to remain competitive in the 1990s.

GRAPH 8: THAI EXPORT MARKETS



GRAPH 9: SERVICES AS A PERCENTAGE OF EXPORT EARNINGS



--Moving up the product cycle requires ability to obtain, absorb, adapt and, ultimately, develop new technology. But Thailand's comparatively high effective rate of protection (53% in 1985) shields many industries from the global competition which speeds technological development. Moreover, poor protection of intellectual property reduces incentives for the adaptation of existing products, or the development of new product concepts.

--With high profits flowing from labor-intensive production, the market is not yet signalling the need for technological investment. In 1987, Thailand's R&D investment was a paltry 0.2% of GNP, much lower than Korea's or Taiwan's share in the 1970s, and only a tenth of Korea's current ratio. Moreover, Korea's R&D investment is 60% private, in comparison with Thailand's 4%. The difference between Thailand and Korea is partially explained by differences in attitudes toward direct foreign investment. While Thailand welcomes such investment, including its sizeable technology component, Korea has historically been more self-reliant. Thai openness to foreign investment should attract more technology-intensive industries, if skilled human resources and adequate intellectual property protection are available. But a poor stock of human capital, coupled with infrastructure shortfalls, could discourage foreign investment, dooming Thai industry to declining growth in the late 1990s.

If Thailand can amass greater human and technological capital, alleviate infrastructure and utilities shortages, and redress environmental degradation in industrial areas during the 1990s, domestic and external conditions favor continued export-led industrial growth in the decade ahead.

4. Thai Services in the World Economy

Thai services have traditionally been a major source of non-agricultural income and employment, but recently services have also become a major source of foreign exchange earnings. (Graph 9) Industrial and tourism growth are pushing the development of a modern services sector, and engendering a new national vision: replacing Singapore and Hong Kong as a regional services center by the end of the decade.

a. Trends of the 1980s

--Between 1980 and 1988, the proportion of traded services value to merchandise export value rose from 33% to 36%.

--Between 1981 and 1988, telecommunications grew by an annual average of 17.8%, insurance by 13.3%, banking by 12.7%, transportation by 11.8%, and hotels, restaurants and tourism by 11.7%. Only personal services, the more traditional part of the sector, experienced declining growth.

--Although tourism growth was relatively slower over the nine-year period, tourism income expanded 34% annually between 1986 and 1988, and its share of

total services from 41% (1980) to 51.4% (1988). Since 1982, tourism has been the number one foreign exchange earner; in 1987 tourism generated 24% of total foreign exchange earnings from the top ten exports.

--High growth in telecommunications reflects rising unmet demand for services from the parastatal Telephone Organization of Thailand, which monopolizes domestic services, and the Communications Authority of Thailand which monopolizes international services.

--High growth in banking and insurance reflects cartel profits from growing demand for these services. Protected by limitations on access and the scope of operations, these industries have not been forced by competition to expand and improve their product lines. Because of high profits, however, DFI in financial institutions grew from an outflow equal to 29% of total DFI in 1985, to an inflow of 12% in 1988. But foreign portfolio investment in these sectors is declining as a share of total foreign portfolio investment -- from 43% in 1987 to only 30% in 1988.

--High growth in transport reflects both the rapid increase in passenger traffic from tourism, and growth in air transport of exports. Horticultural produce, e.g., tropical orchids and cut flowers, now accounts for one-third of all export air cargo. Expansion of air passenger and freight traffic is now limited by Thai International's insufficient availability of planes and facilities, and by small and congested airports managed by the Airports Authority of Thailand.

b. Prospects and Constraints of the 1990s

--As growth in merchandise exports slows, the proportion of traded services to merchandise exports could rise, particularly if Thailand pursues its regional services center vision, and if tourism growth continues.

--Expanding domestic demand for services should further stimulate service sector growth. Demographic change and income growth within the Thai economy should increase demand for domestic tourism, transport, telecommunications, health care and entertainment industries, as well as for financial services to manage capital deepening resulting from higher labor force participation. Historically, economic growth ignites demand for commercial insurance, while rising incomes spur demand for personal insurance services. The aging of the Thai population will require more sophisticated, and more expensive health treatment, creating new demand for private health insurance systems in a country where less than 1% of the population now has private health insurance. Banking and other financial services should benefit from expanding demand for new financial instruments and services needed by an increasingly industrialized international player.

--TDRI projects a doubling of tourism income between 1989 and 1994, in comparison with projected overall service sector growth of 38% in the same

15

period. But many believe that this projection is too optimistic in light of the potential impact of increasingly polluted beaches and AIDS on the tourism industry.

--With the exception of tourism, the service sector includes some of the most heavily regulated areas of the economy, either through RTG control (transport and telecommunications), or through limitations on access and the scope of operations by both domestic and foreign firms (banking, financial services, insurance). Because these sectors are not fully responsive to market forces, TDRI's growth projections are quite pessimistic. In particular, TDRI projects that telecommunications and transport growth could decline sharply, while growth in banking, finance and insurance could decline by half. Whether or not TDRI's projections are overly pessimistic, the sluggish supply response of these monopolies could constrain both their own growth and that of other sectors.

--Bettering TDRI's pessimistic projections for transport and telecommunications hinges upon the availability of massive amounts of capital for infrastructure expansion. But the RTG's annual cap on public foreign borrowing limits parastatal access to capital, and proposed privatization measures designed to generate private financing have met with strong resistance from public unions. Recent massive growth of foreign exchange reserves has, however, opened a new source of direct RTG financing.

--Bettering TDRI's prognosis for the financial sector depends on deregulation spurring competition in the provision of existing services, the adoption of a full range of financing alternatives, and on rapid capacity growth in telecommunications.

--Ultimately, telecommunications, transport and financial services face an uncertain future in the 1990s. Capacity restraints and uncompetitive behavior will reduce the quantity and quality of services provided below their competitive levels. If RTG control is reduced and services are allowed to respond more competitively to market forces, opportunities abound for service growth in the 1990s. If, however, the RTG retains close control and continues to restrict investment, TDRI's pessimistic projections may be disappointingly accurate.

--No matter what the RTG decides, competitive Thai service industries of the 1990s, like their agricultural and industrial counterparts, will involve higher value-added components, requiring skilled labor and capital and technology-intensive investments. Moreover, while individual infrastructure components are part of the services sector, individual service industries need better infrastructure to sustain growth, e.g., communications for financial services, and transport for tourism expansion.

With Singapore's wages rising rapidly, and Hong Kong's post-1997 future uncertain, Thailand has a slim window of opportunity to become a regional

26

services center by the year 2000. Success will depend on RTG willingness to release its grip on the service sector and ability to alleviate infrastructure, financial, and human capital inadequacies which constrain Thai service performance. Absent clear and early change in these areas, Thailand's chance at the regional brass ring could slip away in the 1990s.

5. Conclusions

Over the coming decade, both short-term and long-run issues require resolution if Thailand is to maintain rapid growth. In the short-term, output growth will depend on maintenance of Thailand's comparative advantage in labor intensive products. Given rising wages, this requires increases in labor productivity and reductions in other costs. Labor force skills, provision of adequate infrastructure, environmental issues, and access to finance at reasonable costs will be critical concerns for the next several years. The Mission uses the shorthand term "efficiency issues" in referring to these concerns.

Over the longer run, improving policy and capacity in education, technology, infrastructure, and finance will be crucial. Issues here include: trade liberalization to support technological adaptation, developing an adequate pool of technically competent labor; improving firms' capacity to absorb, adapt, and develop new technologies; and evolution of a legal and regulatory structure that will create adequate quantity and quality of infrastructural and financial services. The Mission uses the shorthand term "productivity issues" to describe this set of concerns.

USAID concludes that efforts to support Thailand's growth path in the 1990s should be guided by the summary framework shown in Chart 1.

E. Political Economy

None of the conclusions of the previous pages are a surprise to thoughtful Thai leaders in either the public or private sectors. TDRI's year-end conference drew many of the same conclusions; the local press is replete with analyses of constraints to Thai economic performance in the decade ahead. So why, when these issues are so well known, are opinions on prospects for their resolution so mixed?

Before 1980, Thailand was a bureaucratic and military polity. Business interests advanced their agendas through links to one or the other of these forces. Between 1980 and 1988, Prime Minister Prem Tinsulanonda expanded the political leadership's linkages to big business, academia, the rising middle class, organized labor (of which state enterprise unions form the strongest part) and rural farmers. The net effect was to encourage a return to democratic institutions. The election of 1988 was won by a coalition of pro-business interests, led by the Chart Thai party under Prime Minister Chatchai Choonhavan. The civilian government has found that,

27

**Chart 1 - Thai Growth Path for the 1990s
(Summary Framework)**

**U.S.-Thai Objective: Sustainable,
Increasingly Broad-based, Thai Economic Growth**

**Thai Growth Path: Broader and Deeper Integration
With the International Economy**

Agricultural Growth Path	Industrial Growth Path	Services Growth Path
Enhanced Productivity: Product Diversity and Higher Value Added	Enhanced Efficiency: Cost Effectiveness in Labor-Intensive Production Enhanced Productivity: Product Diversity and Higher Value Added	Enhanced Efficiency: Cost Effectiveness in Labor-Intensive Services Enhanced Productivity: Product Diversity and Higher Value Added
Constraints on Agriculture	Constraints on Industry	Constraints on Services
Domestic: Labor Force Skills Technological Capacity Infrastructure Deficiencies Capital for Agribusiness Intellectual Property Protection Environmental Degradation and Depletion International: Protectionism Environmental and Health Concerns	Domestic: Labor Force Skills Technological Capacity Infrastructure Deficiencies Tariff Regime Intellectual Property Protection Environmental Degradation and Depletion International: Protectionism Shifts in the Flow of International Capital	Domestic: Labor Force Skills Technological Capacity Infrastructure Deficiencies Capital for Service Expansion Policy, Legal and Regulatory Framework Environmental Degradation and Depletion AIDS International: Environmental and Health Concerns Shifts in the Flow of International Capital

despite a rapidly expanding economic pie, addressing economic issues involves tough resource allocation choices--choices which the government has so far been unwilling to confront. Political developments over the 1980s have expanded the democratic dimension of Thai society; they have also complicated an already intricate economic decision-making process. These complexities are evident in recent debates over proposed privatization of state-owned enterprises.

It is impossible to predict the political situation six months ahead, much less five or ten years in advance. But it is possible to say that the future competitiveness of the Thai economy depends on economic decisions taken over the next few years. These decisions will be easier if they reflect the wishes of the popular majority. A number of interest groups arose over the 1980s, particularly in response to environmental concerns. Over the 1990s, Thailand's economic prospects and the success of nascent democratic institutions will depend on the country's ability to broaden and deepen the avenues of political and economic dialogue, achieve a sustainable political consensus on the solutions to economic issues, and act decisively to implement the chosen solutions.

III. Targeting the USAID/Thailand Strategy

As the preceding pages illustrate, during the 1990s Thailand will need to address many barriers to further integration with the world economy. USAID's financial resources for helping the Thai address these constraints will be limited. Staffing resources are projected to decline as well.

A. Applying and Integrating ADC Program Objectives

Bearing in mind its program goal of fully sustainable, increasingly broad-based Thai economic growth, recognizing that Thailand's growth path in the 1990s will involve broader and deeper integration with the world economy, and conscious of the enhanced mutual economic interests which derive from Thailand's emergence as an Advanced Developing Country, the Mission sought to identify program objectives most critical to Thailand's growth path, most relevant to emerging ANE themes, and most important in the context of heightened mutual economic interests. The conceptual framework for targeting Mission program efforts is shown in Chart 2. The Mission defines the program objectives for USAID/Thailand in the 1990s in terms of three intersecting circles as follows:

1. Improved Efficiency and Productivity of Selected Aspects of the Thai Economy (Open Markets): Short-term issues related to maintaining competitiveness in labor-intensive production, and longer-term issues related to increasing the value-added of Thai products and services, will be critical to Thailand's further integration with the world economy over the 1990s. In particular, expanding human capital (including technical capacity), broadening and deepening financial markets, and managing the

environment will be central to the sustainability of Thai growth. These are also areas where U.S. expertise is strong, and private solutions abound.

2. Achieving a Sustainable Political Consensus on Economic Issues (Open Societies): The institutional capacity of elected national and local government and non-governmental advocacy groups, the rule of law in support of economic growth, and the role of the media in mobilizing popular opinion will be critical elements of the Thai political economy in the 1990s. These are also areas where a number of private, non-profit U.S. organizations are now interested in building programs in Thailand.

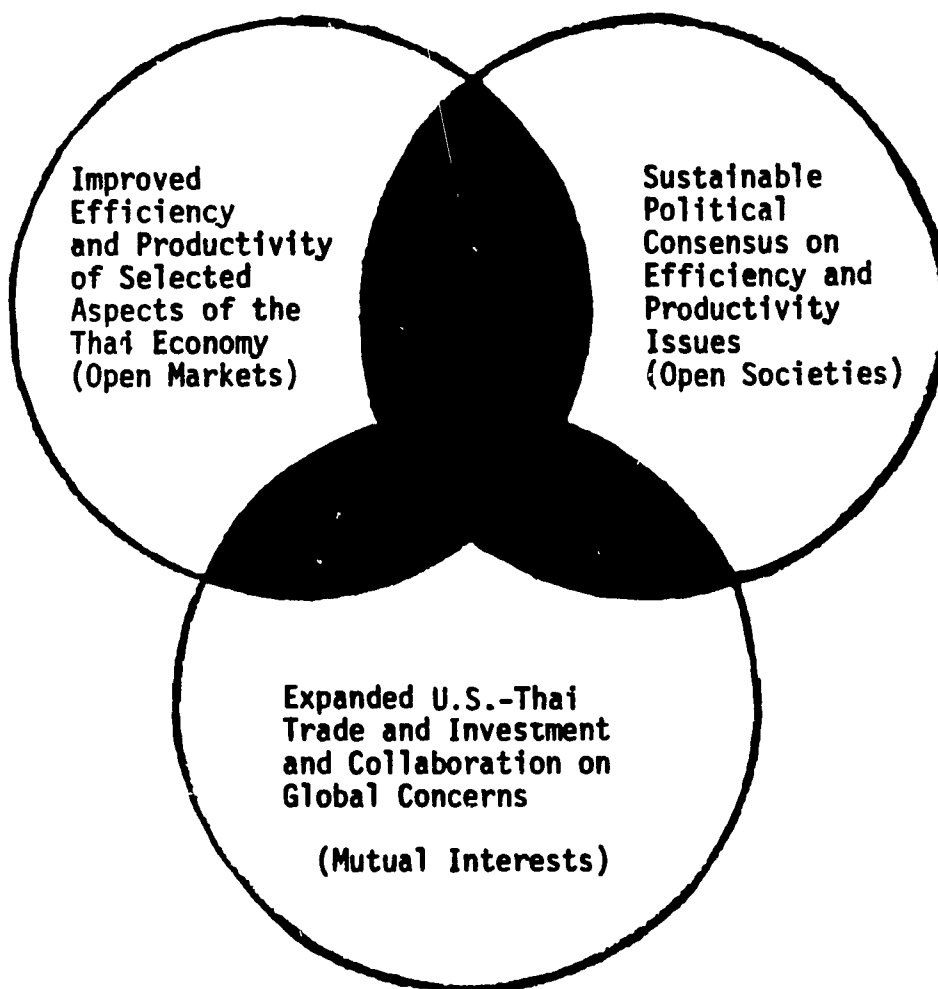
3. Mutual Interests (The ADC Dimension): Expanding U.S. Trade and Investment with Thailand and Enhancing U.S.-Thai Collaboration on Global Concerns of Bilateral Interest. This focus includes: expanded use of the expertise and resources of the U.S. private sector to resolve Thai barriers to integration with the world economy; expanded participation by the U.S. private sector in Thailand in implementation of AID-financed projects; AID support of the business community's efforts to improve the climate and incentives for U.S. trade and investment; the availability of tied aid to sustain U.S. competitiveness for major capital projects; and support of selected activities encouraging bilateral cooperation on global or regional issues, e.g. environment or AIDS. In selecting areas of substantive program focus, the Mission also looked for areas where the U.S. has clear comparative advantages.

With diminishing program and staff resources, the Mission recognized that program approaches serving more than one objective are more valuable than those serving only one objective. Accordingly, the Mission plans to focus its efforts on the shaded portion of Chart 2.

B. Identifying Program Content

Over the last several months, seven research teams assisted the Mission in identifying program interventions to ameliorate Thai growth constraints through the application of U.S. expertise and resources. Each team focused on an area identified in the ANE Concepts Paper as a probable constraint to broader and deeper Thai integration with the world economy: trade, industrial and pricing policies, inadequate labor force skills, the need for private participation in the provision of infrastructure and utilities, limited private sector role in research, development and engineering, inadequate financial markets, environmental constraints to growth, and democratic pluralism issues. Summaries of each of the team's findings and recommendations form Annex D. While each team identified packages of interventions which appear substantively reasonable and within the Mission's capacity to implement, there were also strong linkages among the conclusions and recommendations:

Chart 2
Integrating the Program Objectives



USAID/THAILAND PROGRAM PRIORITIES WILL BE
IN THE SHADED AREA

--A majority of the teams cited human capital deficiencies as elements of their problem analysis. Although none of the teams cited capital shortages as a current growth constraint, several suggested that policy, legal or regulatory issues hamper financial markets' ability to expand infrastructure and social services. Four of the seven teams mentioned environmental issues as an area of concern. Nearly all of the teams identified policy issues, either at the crux of their focal area, or in relation to one or more cross-cutting themes. In some instances, bad policies or poor implementation are disincentives to amelioration of the growth constraint. In other cases, e.g., environment, the lack of policies has the same effect.

--As a result of their identification of policy issues, almost all of the teams directly or indirectly identified tough political economy issues at the root of Thai ability to resolve growth constraints.

--All of the teams saw opportunities to enlist U.S. public and private sector expertise in the solution of Thai growth problems over the 1990s.

Recognizing these themes as areas of intersection among the conceptual circles, the Mission used them to define its strategic purposes and to identify linked program objectives, each of which can be targeted with a mixture of on-going and planned programs and projects. Chart 3, "Parameters of the USAID/Thailand Strategy for the 1990s," outlines program links. Briefly, the Mission proposes to focus its program in the 1990s on three critical areas:

--Expanding the quantity and improving the quality of Thai human capital, particularly to increase the value-added of Thai products through the application and management of technology.

--Facilitating the ability of international and domestic financial markets to meet rising demand for infrastructure and social services.

--Ameliorating environmental degradation which now increases costs and diminishes growth prospects in key industrial and tourism sectors.

These substantive issues will be addressed through judicious selection of key interventions to:

--Address policy issues, or transfer catalytic problem-solving concepts or techniques from U.S. to Thai public and private institutions.

--Assist key representative and advocacy groups to achieve a sustainable political consensus on steps needed to resolve growth issues.

--In collaboration with other U.S. government agencies, expand U.S.-Thai trade and investment and collaboration on global concerns of particular

Chart 3 - Parameters of the USAID/Thailand Strategy for the 1990s

Goal:

Fully sustainable, increasingly broad-based, Thai economic growth

Sub-Goal:

Broader and deeper integration with the world economy (particularly the U.S.)

Purposes:

Improved Efficiency and Productivity of Selected Aspects of the Thai Economy

Sustainable Political Consensus on Efficiency and Productivity Issues

Expanded U.S.-Thai Trade and Investment and Collaboration on Global Concerns of Mutual Interest

Subpurposes:

- Expanded human and technological capital
- Broader and deeper financial markets
- Institutional capacity to address environmental degradation/depletion

- Improved institutional capacity of selected groups
- A range of interest groups affecting public dialogue on efficiency and productivity issues

- U.S. private sector participating in resolving Thai growth constraints.
- Improved climate and incentives for U.S. trade and investment with/in Thailand
- Enhanced collaboration on global concerns, e.g. environment AIDS

Outputs:

THE PROGRAM MENU

Inputs:

ATT, STD, EPD, MANRES, PVO (RIE), TIS, TGIF, CENTRAL/REGIONAL PROJECTS

10

bilateral interest, not only to resolve key growth issues, but also to create sustainable links outlasting AID's presence in Thailand.

A comparison of Chart 3 with the list of studies contracted by the Mission, suggests that some study topics, i.e., trade, industrial and pricing policies, private participation in infrastructure and utilities, and the role of the private sector in research, development and engineering, have been dropped from the Mission's priorities. This is not necessarily the case. Policy issues remain an integral part of the Mission focus, but the universe of Mission policy concerns has been narrowed to those issues which inhibit Thailand's ability to maintain competitiveness in labor-intensive production, to move up the product cycle, or to be an effective trade and investment partner with the U.S.

Similarly, the Mission continues to be concerned with limited private participation in infrastructure, but within the broader context of a policy, legal and regulatory framework which now inhibits financial markets' ability to meet rising demand for infrastructure and social services. The Mission believes that bond markets and leasing arrangements are particularly relevant to infrastructure expansion needs.

Finally, low private investment in research and development now appears a rational financial decision in a business environment where high profits are being made from low-technology production, or production relying on technology imports. When the business climate for indigenous R&D investment improves, the Mission will look again at technology finance issues as a part of its broader focus on financial markets. In the interim, the Mission believes that the human capital dimensions of firms' needs for technology acquisition, assimilation, adaptation and development are currently more pressing, and can be addressed as part of the Mission's broader focus on human capital, particularly as it relates to the application and management of technology.

At first glance, Chart 3 presents a complex array of program objectives for a Mission whose FY 1990 DA program level is only \$10 million. But the 1990 level derives in part from the size of the Mission pipeline, \$74 million in DA resources at the end of FY 1989. Almost \$10 million of this pipeline will be deobligated from terminating projects in FY 1990. But a significant portion of the continuing pipeline can be redirected toward new program objectives. As Chart 3 indicates, all of the Mission's on-going projects are relevant to one or more aspect of Thai growth in the 1990s. Moreover, each on-going project either addresses now, or can be restructured to address, more than one strategic purpose, obtaining a larger "bang" for the programmatic buck. As the Mission restructures and implements on-going and new programs over the coming years, it will also try to leverage RTG, U.S. private sector or other donor resources in support of program objectives.

C. A Menu of Potential USAID Interventions

As the Mission struggled with this plan, it gave considerable thought to both the form and substance of appropriate program interventions in an ADC context. It concluded that Thailand's attainment of ADC status requires not only new program objectives, but also new forms of program intervention. Because the Thai economy is much more dynamic than that of an LDC, USAID's program in Thailand must be highly flexible and responsive to rapidly changing circumstances. Because Thailand already plays an expanded role in the international marketplace, global market forces play an expanded role in the Thai economy; AID's program must reflect these forces, and use them to accomplish program objectives. Because market forces are not well accessed through public institutions, AID's program must nurture more private sector relationships, both in the U.S. and Thailand. Because of the growing capacity of the Thai public and private sectors, AID interventions can now be briefer and less costly than conventional projects. Finally, because time is running out on AID's presence in Thailand, ADC interventions must broaden and deepen U.S.-Thai linkages which can endure over the longer term.

Accordingly, the Mission urged the study teams to identify relatively short-term, inexpensive program targets which can be achieved with both on-going and new program mechanisms. Charts 4 - 8 outline the teams' suggestions; they also incorporate some of the Mission's own thoughts. Each chart is a "close up" of the content of the Mission's purpose-level objectives (as shown in Chart 3). In effect, Charts 4 - 8 are menus of Thai "program dishes" which can be selected in the next few years. But while the menus are appropriate for current political and economic conditions, they are not intended to be static. As circumstances change, and as new opportunities present themselves, the menu will expand, contract or otherwise change. Moreover, the Mission hopes that in reviewing this plan, ANE will identify new "entrees", particularly those flowing from ANE's closer contact with U.S.-based public and private institutions.

D. The Menu in the Context of On-Going Projects

Existing projects provide opportunities for building technological capital, addressing environmental issues, assisting non-governmental advocacy organizations, and promoting U.S. private participation in resolving selected Thai problems. But the match of on-going projects with strategic objectives is not exact. On-going projects provide relatively fewer opportunities to address human capital and financial markets issues, to work with representative and advocacy groups on other than environmental issues, and to work with other U.S. agencies and groups on improving the climate for U.S. trade and investment with Thailand.

The Mission has already initiated a first phase of program restructuring to reduce the labor intensity of project implementation and accelerate pipeline drawdown as Mission staffing declines. If this plan is approved, a second

Chart 4 - A Menu of Activities to Expand Human Capital
(Particularly for the Application and Management of Technology)

Objective 1: Foster the development of mutually-beneficial partnerships between business and public and private educational institutions to address labor force needs.

Interventions:

Support Thai industry collaboration with educational and training institutions to design and implement sector-specific programs.

Encourage exchange of information and human resources between Thai industry and educational and training institutions, e.g.:

- Faculty sabbaticals in industry to increase "real world" business experience;
- Use of Thai and U.S. business-people as university lecturers or adjunct faculty.

Encourage the active involvement of business in policy-making boards of educational/training institutions.

Support private sector collaboration with educational and training institutions to develop continuing education programs to up-grade management and technical skills.

Examine feasibility of the use of "distance education" using high-technology educational techniques to up-grade skills within firms and within educational and training institutions.

Objective 2: Foster linkages to apply U.S. expertise in education and training to the resolution of Thai labor force gaps.

Interventions:

Support the creation/facilitation of "joint-ventures" between U.S. and Thai higher education, e.g. a graduate engineering school, modeled on the Sasin Graduate Institute of Business Administration, a joint program between Chulalongkorn University, the Wharton School of the University of Pennsylvania and J.L. Kellogg Graduate School of Management, Northwestern University. Participating institutions could be either public or private, but programs would involve full cost recovery via training fees.

In collaboration with U.S. business interests in Thailand, provide start-up funding for the creation of placement and career development services for Thai students in the United States.

Support collaboration between the private sector and Thai research institutes to examine labor skills issues and alternative approaches and models to address these issues.

Objective 4: Enhance the policy environment for technology development in Thailand.

Interventions:

Sponsor studies and organize seminars bringing together public officials, industry executives and technology policy analysts on topics such as:

- The impact of tariffs and restrictions on market entry by new firms and expansion of existing firms on selected manufacturing industries;
- Provision of fiscal incentives for R&D, e.g. tax laws, when the tax base generated from R&D activities is sufficiently large to allow a broad range of companies to take advantage of these benefits;
- Provision of fiscal incentives for firm's financing of employee training programs;
- Enhanced collaboration among Thai public sector agencies to promote technology - intensive exports;
- Enhanced public sector research orientation to industrial market needs;
- Reduction/elimination of double taxation for U.S. technology consultants in Thailand.

Objective 5: Strengthen institutional infrastructure for the acquisition and utilization of foreign technology and the conduct of applied research.

Interventions:

Develop a private sector industrial extension service to provide industry-specific engineering diagnosis, market analysis, human resource assessment and brokerage of modernization loans and equipment. Models include the Hong Kong Productivity Center and State of Michigan programs in which the costs of private sector service contracts for the provision of extension services are shared by government and industry fees.

Enhance the network of component suppliers by encouraging Thai industry to provide potential suppliers with assistance for technical upgrading. Where potential suppliers do not exist, identify and encourage U.S. companies to become part of the Thai component supply network,

particularly in computer-assisted design services, mold making and precision plastics.

Develop a strategy for molding services of existing Thai technology centers into a national industrial testing and calibration service.

Objective 6: Encourage expansion of industry and company-specific training in areas such as advanced engineering and technology management.

Intervention:

Establish a technology training organization for areas such as advanced engineering and technology management, supported by company membership fees, to diagnose professional training needs, act as a broker for training services (using both local and U.S. resources) and prepare and deliver courses as needed.

Objective 7: Encourage joint U.S.-Thai private research and development.

Intervention:

Establish a grant fund to match Thai industry R&D efforts with those of U.S. companies or other research organizations. Grants could be forgiven for unsuccessful projects, but any capital equipment bought could be salvaged. If the project is successful, royalties and license fees could be levied on any sales of products based on the technology developed.

Chart 5 - A Menu of Activities to Expand
Financial Markets

Objective 1: Support Thai efforts to keep privatization policies on the national economic agenda, despite opposition from selected interest groups.

Interventions:

Identify Thai counterpart organization(s) and work with them to educate the public about the advantages of private sector involvement in infrastructure and utilities expansion.

Select one or more municipalities where wastewater/sewage issues are critical to continued growth, e.g. Pattaya, Phuket, and undertake pilot project(s) employing U.S. firms and technologies to demonstrate effectiveness of private sector solutions to wastewater/sewage problems.

Maintain funding flexibility to enable rapid response to targets of opportunity in the privatization of infrastructure and utilities.

Objective 2: Expand high-level linkages between U.S. and Thai financial sectors to encourage future cooperation in Thai financial market development.

Intervention:

Finance and co-host with the Bank of Thailand, the Ministry of Finance and the Securities Exchange of Thailand a financial markets conference bringing high-level U.S. and Thai financial specialists together to address specific market development issues.

Objective 3: Expand the Thai equity market.

Interventions:

Assess the feasibility of a zero tax as an incentive for new SET listings.

Assist in the development of a mutual fund industry.

Objective 4: Improve the quality of financial information.

Interventions:

Coordinate the establishment of a Thai Chartered Financial Analysts program.

Assist in setting up a Thai version of the U.S. Financial Accounting Standards Board and the American Institute of Certified Public Accountants.

Assist in establishing a credit rating agency if the Asian Development Bank does not pursue this program possibility.

Objective 5: Encourage legal and regulatory reform to modernize the framework for financial system development.

Interventions:

Assist in development of a trustee law or a revised bankruptcy code.

Create a Thai version of the U.S. Investment Company Act of 1940 to encourage registration of new investment management and brokerage companies while protecting shareholders against securities fraud and insider trading.

Objective 6: Identify and encourage adaption of new mechanisms for channelling national savings into infrastructure and social service investments.

Intervention:

Develop comparisons of various national provident funds and involuntary savings plans.

Use comparative findings and recommendations as the basis for developing elements of a national savings program, e.g. private pension funds.

Objective 7: Maintain AID contacts with the Thai banking sector as a source of U.S. commercial opportunities.

Intervention:

Support the Thai Banker's Association training institute as a vehicle for bringing U.S. information technology into the Thai banking system.

Objective 8: Encourage the SET to become a regional securities market.

Interventions:

Assist the SET, Ministry of Finance, Bank of Thailand, member firms, listed companies and investor constituencies to evaluate organizational and policy issues relating to evolution of the SET into a major regional securities market.

Establish an American Depository Receipt program for Thai companies seeking a presence in U.S. markets.

Chart 6 - A Menu of Activities to Address
Environmental Growth Constraints

Objective 1: Support Thai establishment of a policy and regulatory structure which provides incentives for environmental responsibility.

Interventions:

Finance policy analysis and dialogue on:

- Current and potential relationship between BOI investment promotion policies and industrial pollution concerns;
- Development of cost effective regulations, (e.g., utilizing the price mechanism) to reduce industrial pollution while preserving industrial competitiveness;
- Options for industrial self-regulation and self-enforcement which will preempt overly restrictive government regulation;
- Energy pricing as it relates not only to projected growth in demand, but also to environmental impacts such as air pollution and traffic congestion;
- Water supply and demand and the role of pricing in both demand management and supply expansion given current levels of groundwater pumping and land subsidence;
- Cost effective mechanisms for wastewater treatment by municipalities and the tourism and manufacturing industries;
- Implications of pesticide and fertilizer subsidies on production efficiency, water quality, and marketability of higher value agricultural produce;
- Impact of tourism on the environment and need for promotion of higher value tourism.

Objective 2: Enhance public awareness of environmental issues and develop sustainable institutions for addressing environmental issues.

Interventions:

Assist NGOs to disseminate information regarding both local and national environmental issues:

- Establish mechanisms to improve the flow of environmental information from the public to NGOs and policymakers;
- Develop an environmental research service (analogous to Congressional Research Service) to gather data and analyze environmental issues for parliamentary committees, local government and NGOs.

Objective 3: Expand human capital for environmental programs.

Interventions:

Provide full or partial financing for training in:

- environmental economics;
- law and impact assessment;
- industrial, urban and hazardous and toxic waste management; and tourism and the environment.

Objective 4: Undertake selected pilot projects with municipalities and industry to demonstrate the effectiveness of individual and collective waste management technologies and systems.

Interventions:

Pilot projects with:

- Bangkok Metropolitan Authority and industry groups for wastewater treatment.
- Pilot project with Pattaya Municipality, hotel association and Tourism Authority on hotel wastewater treatment facilities.
- an industrial estate to demonstrate effectiveness of self-regulation in controlling industrial pollution.
- An urban municipality and the private sector for solid waste collection and disposal on cost recovery basis.

Objective 5: Finance selected feasibility studies to assess applicability of price mechanisms to reverse environmental degradation and depletion.

Interventions:

Undertake feasibility studies of:

- A Bangkok public transport system with private participation and cost recovery through user charges and city center congestion charges;
- A central sewage system in Bangkok and/or Pattaya financed through adequate water use and connecting charges;
- The role of pollution fees and refundable deposits as mechanisms for incentives, enforcement and funding for pollution control.
- Opportunities to develop the economic value of forests through nature tourism, extractive reserves, and pharmaceutical concessions (biological prospecting rights).

Chart 7 - A Menu of Activities to Promote a Sustainable
Political Consensus on Economic Issues
(To be Implemented via Intermediaries)

Objective 1: Increase the ability of selected NGOs to analyze issues, articulate their interests, and channel their concerns to policymakers.

Intervention:

Strengthen broadly representative business organizations.

Address labor issues through democratic institutions.

Strengthen advocacy organizations, e.g. environmental groups, private educators.

Assist NGOs to develop sustainable income sources.

Objective 2: Assist national and local elective bodies to develop their analytical skills.

Interventions:

Assist the development of the Parliamentary Committee system.

Strengthen the capacity of municipal councils to address key service issues, e.g. infrastructure and utilities.

Objective 3: Improve local government responsiveness.

Interventions:

Assist in expanding the avenues of municipal finance, e.g., bonds.

Strengthen municipal planning and management capacities.

Objective 4: Strengthen the effectiveness of Thai administrative law systems.

Interventions:

Assist in reform of selected aspects of the legal and regulatory system.

Demonstrate the role of administrative law systems in regulating individual industries or practices.

Chart 8 - A Menu of Activities to Support
Mutual Interests in Expanded Trade and Investment and
Collaboration on Global Concerns

Objective 1: Expand the participation of the U.S. private sector in resolving Thai growth constraints.

Interventions:

Use commercial and non-profit U.S. private sector institutions to maximum extent feasible in implementing on-going programs.

In selecting future interventions, give highest priority to those where U.S. organizations have demonstrated capacity in addressing similar issues.

Involve representatives of the U.S. private sector in Thailand in setting or reviewing the agendas of AID-financed activities, e.g. Am Cham representatives participating in review of EPD policy proposals, or of STD research grants.

Establish MUST Link to canvass Thai economy and broker links between U.S. sources of products and expertise and Thai problem-solvers.

Objective 2: Improve the climate and incentives for U.S. trade with and investment in Thailand.

Interventions:

Establish JUST Business, Inc. as a non-profit organization, incorporated in the U.S. with a presence in Thailand, charged with identifying and implementing an agenda of programs to expand U.S. trade and investment with Thailand.

Establish a for-profit subsidiary of JUST Business in Thailand to provide business services to U.S. firms entering the Thai market.

Finance studies and/or seminars on specific barriers to expanded U.S. participation in the Thai economy, e.g. the lack of a double taxation treaty, or the impact of current Thai rules on intellectual property protection on selected industries.

Objective 3: Enhance U.S.-Thai collaboration on global concerns of particular mutual interest.

Interventions:

Encourage U.S.-Thai collaboration on environmental research.

Facilitate the exchange of research findings on prevention and treatment of AIDS.

Expand bilateral cooperation on narcotics awareness and suppression.

Encourage U.S.-Thai collaboration on specific issues addressed in international trade fora.

Encourage U.S.-Thai collaboration on development strategies and programs in other less developed countries.

4/6

complain that American firms are not interested in the Thai market. Bemoaning Japanese dominance of Thai industry, the RTG solicits new U.S. and European investment. Meanwhile, American business representatives in Thailand cite both U.S. and Thai barriers to trade and investment expansion.

All of these groups want to see U.S.-Thai trade and investment expand. USAID's proposed new Trade and Investment Support program, to be authorized in FY 90, will give them the chance to make it happen. TIS will create a non-profit U.S. corporation (JUST Business), charged with expanding U.S.-Thai trade and investment. JUST Business' Board of Directors will be dominated by U.S. business, but will also include representatives of Thai business, and both the U.S. (USFCS and AID) and Thai governments. Public sector participation will ensure that program activities complement, rather than compete with, public programs. It will also provide a conduit for the flow of private sector concerns into halls of the two governments.

Unlike traditional AID projects, TIS will not attempt in advance to outline a full program of activities for AID funding and oversight. Rather, its program concept explicitly recognizes the greater ability of the private sector to determine which activities will stimulate expanded U.S. trade and investment in Thailand. In cooperation with representatives of the U.S. and Thai private sectors, USAID has developed initial plans for policy analysis, trade and investment promotion, and incorporation in Thailand of a private, for profit firm providing a range of services to U.S. businesses entering the Thai market. Ultimately, however, the composition of JUST Business activities will flow from priorities identified by the private sector itself. Program interventions will thus be demand-driven, and responsive to market forces. AID will finance the creation and initial activities of JUST Business, assist it to access contacts in the U.S. and Thailand, and support its development of income sources, e.g., membership fees, fees for services, or grants from U.S. and Thai public and private institutions, which will ensure financial sustainability over the longer term.

Responding to new U.S. government policies on the use of tied aid in capital projects, a team recently assessed prospects for using tied aid to meeting Thai infrastructure deficiencies. Preliminary discussions have been favorable. One option for managing tied aid in Thailand would be to incorporate these allocations into the Trade and Investment Support Program. Annex C "Capital Projects Assistance" provides further discussion of this potentially important program element.

2. The Thai Growth and Investment Fund (TGIF)

Targeted for initiation in FY 1991, the Thai Growth and Investment Fund will fill in the gaps between the restructured on-going program portfolio and targeted program objectives. It will be a flexible program mechanism facilitating USAID's menu approach to strategic objectives. Given existing gaps between new program objectives and the existing project portfolio, the

phase of restructuring will be needed to increase the relevance of on-going projects to the new strategy. Specifically:

--The Agriculture Technology Transfer project will be directed over its last two years to enhancing technological applications for higher-value agricultural exports (a continuing strong source of export growth in this declining sector), and to building a greater role for joint venturing with U.S. firms.

--The Science and Technology for Development (STD) and Emerging Problems of Development (EPD) projects will be restructured to emphasize policy issues and incentives to expand the quantity and upgrade the quality of mid-level technical and managerial personnel, to expand private participation in developing human capital (including technological capacity), and to build a greater role for commercial technological relationships with the U.S. private sector. EPD will also be used increasingly for financial markets issues, particularly as they relate to infrastructure and social services.

--The Private Voluntary Organizations Co-Financing project, and residual elements of the Rural Industries and Employment project which support Thai business associations, will be combined and re-focused on building the capacity and credibility of selected institutions to engage in public debate on economic issues critical to Thai competitiveness in the world economy.

--MANRES will be adjusted to increase emphasis on environmental degradation issues which directly threaten growth prospects in Thailand's critical urban, industrial and tourism sectors, as compared with natural resource depletion issues relevant to Thailand's earlier sources of growth.

But restructuring alone will not allow the Mission to pursue its new strategic objectives effectively. Even the best restructured on-going project portfolio will retain inflexibilities inhibiting the Mission's ability to undertake new types of program interventions. New program mechanisms are needed to allow implementation flexibility, inject market-oriented attitudes into program execution, and broaden and deepen U.S.-Thai linkages which will outlast AID's tenure in Thailand.

E. New Program Mechanisms

1. Trade and Investment Support Program (TIS)

Each new trading partner and foreign investor expands Thai links with international markets, thus sustaining Thai growth. Thai growth creates new trade and investment opportunities for other countries. But opportunities are hard to seize from half a world away. The U.S. and Foreign Commercial Service (USFCS), as well as the Export-Import Bank, the Trade Development Program and the Overseas Private Investment Corporation promote various aspects of U.S. trade and investment in Thailand. Still, Thai businessmen

substantive focus of the Fund should be human capital and financial market interventions. This focus need not, however, be exclusive. As befits an ADC program, Fund activities will be relatively brief, and focused on clear targets, e.g., the application of U.S. expertise or products to specific problems.

But the Fund will be more than a mechanism for financing menu items. It will also be the first USAID program explicitly designed to foster linkages through which the U.S. private sector can participate fully in resolving Thai problems. As such, its focus will be on creating short-term links between Thai problem solvers and U.S. expertise which offer opportunities for mature, longer-term links between U.S. and Thai institutions.

Finally, the Mission recognizes that Fund activities should provide substantial opportunities for the U.S. private sector. AID's resources should not cover the full costs of reconnaissance in Thailand by individual firms; moreover, generous AID funding could actually subvert market forces in allocating resources to various activities. Accordingly, the Mission will seek cost sharing by Fund beneficiaries, not only to stretch AID resources, but also to ensure to the maximum extent possible that Fund activities meet a market test.

AID will administer the Fund in its early years, relying on implementation arrangements identified during the design process. But toward mid-decade, most of the Fund's functions could be devolved from AID. By fully funding activities at approval, the Mission can forestall a program mortgage and ensure the Fund's adaptability to future management options.

3. Role of AID Central and Regional Resources.

As noted earlier, the U.S. and other industrialized nations have clear interests in ensuring that, as countries become ADCs, they share in the responsibilities as well as the benefits of international economic integration. Important responsibilities include support of an open world trading system, global environmental protection, sharing of research findings on AIDS and other diseases, reduction of narcotics production and trafficking, and donor assistance to less fortunate nations, as well as a multiplicity of coordination efforts on issues ranging from international transport and communications to tax treaties and protocols on space research. Some of these issues will be particularly relevant to the U.S.-Thai relationship in the 1990s. As opportunities arise to encourage collaboration, the Mission will use bilateral program resources, particularly where collaboration can enhance Thai integration with the world economy. USAID will also use central and regional projects, particularly for narcotics issues and AIDS research.

The Mission will also selectively tap central and ANE regional resources for some program menu items. Given Thailand's ADC status and the growing divergence between ANE problems and those of other regions, regional initiatives may prove more relevant to Mission objectives in the 1990s.

Annex A is a logframe showing relationships among strategic goals, purposes, outputs and inputs, and suggesting indicators which could be used to measure program effectiveness. Because this document outlines a long-term plan, the Mission will not identify short-term benchmarks and indicators here. USAID proposes instead to work with ANE staff on these targets after the broad strategy has been agreed upon.

IV. Management Issues and Options

USAID/Thailand faces a considerable managerial challenge in putting this ADC program in place. In the short-run, it will require restructuring the entire project portfolio to focus on program objectives while continuing a rapid drawdown of bilateral staff. To achieve these ends, the Mission proposes to enter into a master contract relationship and reorganize the Mission into a matrix organization which will allow focus on new program objectives while managing a sizeable project portfolio. The Mission's longer-term organizational vision, which could be in place by mid-decade, foresees a small USAID Representative Office, a fully functioning JUST Business group concentrating on realizing commercial gain from rapid Thai growth, and an entrepreneurial private institution drawing U.S. expertise into the solution of continuing Thai growth problems.

A. Short-Term Management Issues

By summer, FY 1990, only nine USDH staff will be devoted to the bilateral program, down five from the staff in place at the beginning of the year. (These numbers exclude positions in the Controller, Executive and Contracts Offices which, in addition to servicing the bilateral program, also support the ASEAN, Cambodia and RHUDO offices, residual Burma activities, and the IG staff in Singapore.) In FY 1991, USDH bilateral staff is projected to decline further, to seven or eight positions. FSN positions have already begun to decline through attrition; further reductions will be in order.

With substantial staff reductions on the horizon, each program element must be manageable within expected staffing constraints. As mentioned earlier, the Mission is already restructuring projects to reduce staff intensity and accelerate pipeline flow. Current staff intensity derives from earlier USAID/RTG decisions to eschew implementation intermediaries, a management style which contrasts sharply with that of most AID Missions. In place of intermediaries, USAID staff manage the majority of project implementation cooperating with the Department of Technical and Economic Cooperation (DTEC), the designated RTG coordinator of grant assistance. This system has

slowed the flow of the program pipeline, and required intensive USAID involvement in input management at the expense of focus on project and sectoral objectives. The Mission believes that program manageability in the short-term will depend on much greater use of management and/or implementation intermediaries, streamlined procedures and focus on objectives rather than inputs, particularly in the STD and MANRES projects.

Chart 9, "Program Silhouette" shows the planned program portfolio through mid-decade. Despite restructuring, the portfolio will remain sizeable and need responsible stewardship. At the same time, under certain conditions it should be possible to reduce USDH staff to 2 or 3 by mid-decade, while also shrinking FSN staffing substantially. This will require further streamlining of the way the Mission does business. The Mission proposes to streamline further by agglomerating planned management/implementation contracts for individual projects, e.g., EPD and MANRES, into a single master contractor relationship. The resulting configuration would approach the innovative method of foreign aid administration now used by the Canadians, which permits them to manage a large foreign assistance program with minimal direct-hire staff. Using this approach for the Mission's program in the first half of the decade would allow additional reduction of Mission staff, and provide a mechanism for implementing activities under the Thai Growth and Investment Fund, until the private entity described in the following section is in place and running smoothly. It would also relieve scarce USAID staff of the more mundane aspects of project management so that important aspects of the ADC strategy can be better addressed. The proposed master contractor relationship is further described in Annex B.

Beyond the contractual aspects of restructuring and downsizing, however, the Mission also recognizes the need to make its own organization support the substantive program objectives targeted in this document. This will be complicated by the fact that the objectives outlined here are closely linked, and not easily segregable into discrete organizational boxes. In pursuing the integration of program objectives with more traditional project management structures, one formulation has begun to emerge. This is shown in Chart 10, which depicts graphically the Mission "program area." The columns of Chart 10 represent the broad program objectives outlined in this document, while the rows represent the project or program resources available over the next several years. The Mission will need to: 1) deliver specific accomplishments in support of program objectives; while 2) ensuring that each project or program achieves its established purpose. These goals are reasonably consistent, but not the same. They argue for a matrix organization in the first part of the decade.

The implications of Chart 10 need to be considered carefully over the next several months. But some preliminary conclusions can be drawn now:

--Mission experience shows that funds are used most effectively when several individuals within the Mission have a vision of what can be done in a

PROGRAM OBJECTIVE	IMPROVING THE EFFICIENCY AND PRODUCTIVITY OF SELECTED ASPECTS OF THE THAI ECONOMY			SUSTAINABLE POLITICAL CONSENSUS ON ECONOMIC ISSUES	MUTUAL INTERESTS
	HUMAN AND TECHNOLOGICAL CAPITAL	FINANCIAL MARKETS	ENVIRONMENT		
PROJECT					
ATT					
STD					
EPD					
MANRES					
PVO					
TIS					
TGIF					

 = On-going/Planned Relationship

--access to high-level policy and decision-makers to influence the directions of Thai growth and ensure participation by the U.S. private sector in these directions; and

--capacity to support U.S. private sector interests in carving out longer term, self-sustaining commercial relationships in Thailand.

Given these characteristics, the Mission concluded that two options previously considered, establishment of a foundation to replace the USAID Mission and continuance of a regular USAID organization, were unsound. A foundation would be particularly lacking in terms of access and influence, and it is unrealistic to believe that it could be endowed at the funding levels required to be a key player on the Thai scene. A continuing regular USAID organization would lack some of the entrepreneurial skills needed for the first two characteristics noted above, and would have difficulty in supporting U.S. businesses in their initial efforts in Thailand. Moreover, AID's operating expense and staffing constraints will limit the Agency's willingness to maintain a large presence in the new Thailand.

While neither a foundation nor a regular USAID Mission is appropriate towards mid-decade, no single alternative organization can now be identified to perform the above functions in the fashion required for an Advanced Developing Country program in Thailand. Rather, at least two, and possibly three, separate yet related institutions would be needed to support Thai growth and related U.S. interests: a small USAID representative office; JUST Business Inc.; and possibly a second private entity (referred to here as "Managing U.S.-Thai Linkages" or "MUST Link") to match Thai problems with U.S. expertise.

1. USAID Representative Office. A continuing, small bilateral presence in Thailand would:

--Provide the access and influence necessary to achieve the objectives outlined in this plan and be supportive of both JUST Business and MUST Link;

--Perform continuing representation, liaison and reporting functions in development-related areas not traditionally covered by other members of the U.S. country team;

--Wrap up, evaluate and account for funds remaining under terminating programs;

--In cooperation with other USG organizations, identify opportunities for and carry out capital projects assistance (tied aid) to support U.S.-Thai mutual objectives;

--Manage security-related programs, such as the Affected Thai Village Program, as long as geopolitical imperatives require such programs;

511

--Channel some amount of regional and central AID funds toward relevant Thai public and private organizations, particularly in areas where public rather than private cooperation is desirable, e.g., addressing narcotics concerns;

--Maintain liaison with Thailand's growing foreign aid program, to ensure complementarity of program strategies and activities.

To administer these functions, the AID representative office need have no more than three USDH officers (a representative, a private sector officer, and perhaps one technical officer, should the program require some particular expertise) and some complement of FSN staff. This office could be an AID Section of the Embassy. However, AID will need to consider the regional programs (ASEAN, O/KA, and RHUDDO and the support provided to these programs by our Executive, Finance and Regional Procurement Offices) presently carried on in Bangkok and the possible increase in activity if programs resume in Indochina and Burma. If AID/W wants to continue administering regional programs from Bangkok, then it would be logical for the Thailand Representative Office to operate under a USAID Regional Affairs Mission. Recognizing the difficulty of making these decisions now, the Mission nevertheless urges AID/Washington to decide the regional dimensions of the Bangkok complex as soon as possible. Continued downsizing of current USAID/Thailand staff will become increasingly difficult in the absence of such a basic decision. Given the uncertain political situations in neighboring countries, alternative sets of assumptions will be required. For example, the extreme shortage of infrastructure in Phnom Penh makes it likely that a USAID/Cambodia program would require support services from Bangkok or elsewhere outside Cambodia for sometime after a democratically-elected government assumes power.

2. JUST Business, Inc. By mid-decade, JUST Business will be a free-standing, self-supporting, private non-profit U.S. corporation with a representative office in Thailand. It will be encouraging U.S. business to capitalize on Thai trade and investment opportunities and contributing to an improved U.S.-Thai investment climate by facilitating the effective exchange of views on key commercial issues. It will be funded by membership dues, receipts from services and activities, and grants from non-AID sources. A self-supporting, for-profit subsidiary corporation will be providing business services to U.S. firms seeking to establish themselves in Thailand.

The AID Representative Office, and other resident USG agencies such as USFCS, will work closely with JUST Business during this period. While its normal operations will not require AID support, AID should find it useful to finance special initiatives. Some of these initiatives could emanate from opportunities identified by MUST Link; others could flow from JUST Business itself. JUST Business will bring two special attributes to the task of building long-term U.S.-Thai links: strong business networks in both Thailand and the U.S.; and business services support for new U.S. investors in Thailand.

24

3. MUST Link. The AID Representative Office will provide access and influence, while JUST Business will provide strong U.S.-Thai commercial linkages. However, neither organization will be capable of constantly canvassing a dynamic Thai economy and undertaking the key brokering function of matching Thai needs with U.S. expertise. The AID Representative Office will have neither the staff or the time, and AID as an Agency is not the entrepreneurial, market-driven organization the concept requires. Moreover, with its focus on the developing world, AID is ill-equipped to address the U.S. side of the linkage equation. JUST Business would have more of these attributes (and, in fact, would be the Mission's preference for managing MUST Link), but during consultations on the design of the Trade and Investment Support program U.S. business representatives argued forcefully for a sharp JUST Business focus on promotion of trade and investment in connection with immediate commercial opportunities.

With the key brokerage functions of MUST Link a critical element of the ADC strategy, and the willingness of JUST Business to assuming the functions in question, it may be necessary to spin off MUST Link to another organization. It is not clear that any existing organization could readily take on this role. Assuming that no perfect organization exists, AID may need to fashion one, building on the capacity of an entity already serving as an institutional bridge between the U.S. and Thailand.

Over the next eighteen months, USAID will be absorbed in portfolio restructuring, further downsizing the Mission, authorizing the Trade and Investment Support Program and starting up JUST Business Inc., and designing the Thai Growth and Investment Fund. As described earlier, the Fund will in effect initiate MUST Link. Design of the Fund will, therefore, involve clearer definition of the new organization and plans for its establishment.

Accordingly, preparatory to designing the Fund the Mission will assess various organizations' capacity and willingness to assume the MUST Link role incrementally over a period of several years after authorization of the Thai Growth and Investment Fund. If at all possible, the Mission would prefer that JUST Business take on this role, thereby reducing the number of organizations established in Thailand to implement the ADC strategy over the longer term. However, if JUST Business demurs, the PID for the Fund will outline criteria for selecting an alternative intermediary organization. The final Fund design would include an implementation plan for step-by-step gestation of the linkage program within an intermediary organization. After the Fund is authorized, the Mission will work with specific organizations to assess their proposals, make a final selection in collaboration with other USG organizations, and finalize financing arrangements and schedules for assumption of specific tasks.

4. AID Representative, JUST Business and MUST Link Working Together. By mid-decade, all these organizations should be functioning

synergistically. Chart 11 shows their interrelationships and what each brings to the implementation of an ADC program in Thailand: the AID Rep brings access and influence; JUST Business brings strong commercial relationships and support mechanisms on both sides of the Pacific; and the MUST Link brings the capacity to seek out Thai needs and match them rapidly with U.S. expertise.

Chart 12 outlines how these three institutions can support each other and contribute to both Thailand's sustained growth and U.S. interests in Thai growth. Beginning with an emerging Thai problem, MUST Link matches the Thai need with American skills. This matching could include short-term technical assistance or training, a brief analysis, a trip to the U.S. to see how Americans deal with the problem, a local workshop or seminar, or any number of relatively brief actions to resolve the problem and introduce the Thai to U.S. capacity in this area. Such exchanges may suggest the need for policy changes or followup to ensure a role for the U.S. private sector in the resulting market opportunity. The AID Representative Office can be particularly helpful in this regard. Once the market opportunity becomes a reality, JUST Business takes over and ensures business services to American firms responding to these new opportunities.

V. Conclusion

USAID/Thailand faces a tremendous challenge in transforming its role in Thailand from of a traditional donor to one of an institutional bridge between the U.S. and Thai public and private sectors. No other AID Mission has ever attempted such a change. No other host country has ever helped such a process unfold. Complicating the process will be the continuing resistance to change which will undoubtedly flow from sources in Thailand, in the U.S. and within AID itself.

During the 1980s, change came unexpectedly -- in geopolitics, in global economic trends, within Thailand, and in the U.S.-Thai relationship. We start the 1990s with one new advantage: we know that greater change is ahead of us, and we are better prepared for it.

But in this last strategy statement for AID in Thailand, we need to look backward as well as forward. Rarely does AID have a chance to claim even partial credit for development success. The time has come to take that credit in Thailand, and to use the Thai example as a lesson for other countries still mired in debt and despair: outward looking economies make economic progress; domestic stability does not rely on closed, political systems; the world economy offers opportunities for the taking by countries with responsible leadership and entrepreneurial populations. If these lessons can be taught elsewhere, AID will no longer lack success stories.

CHART 11

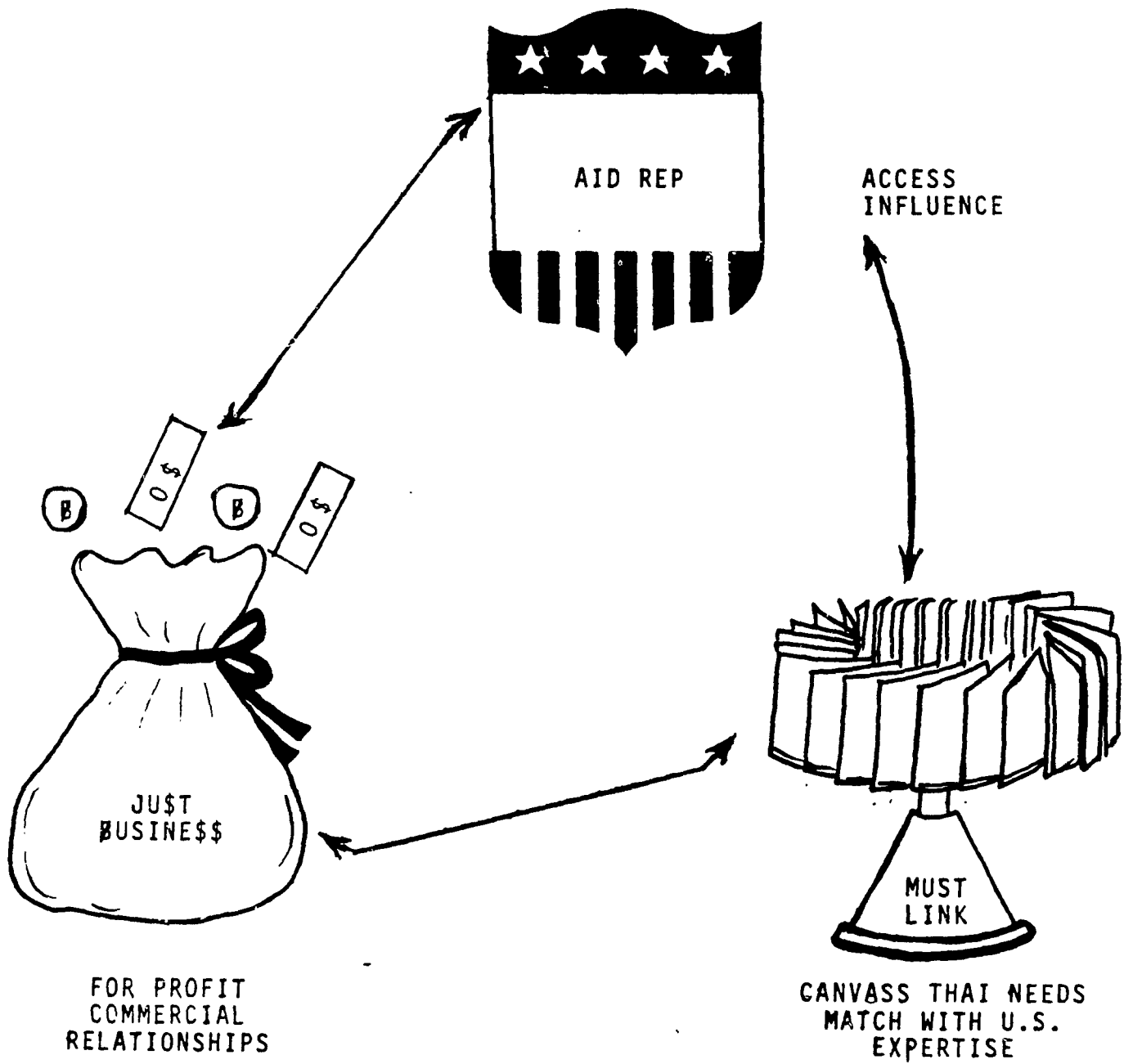
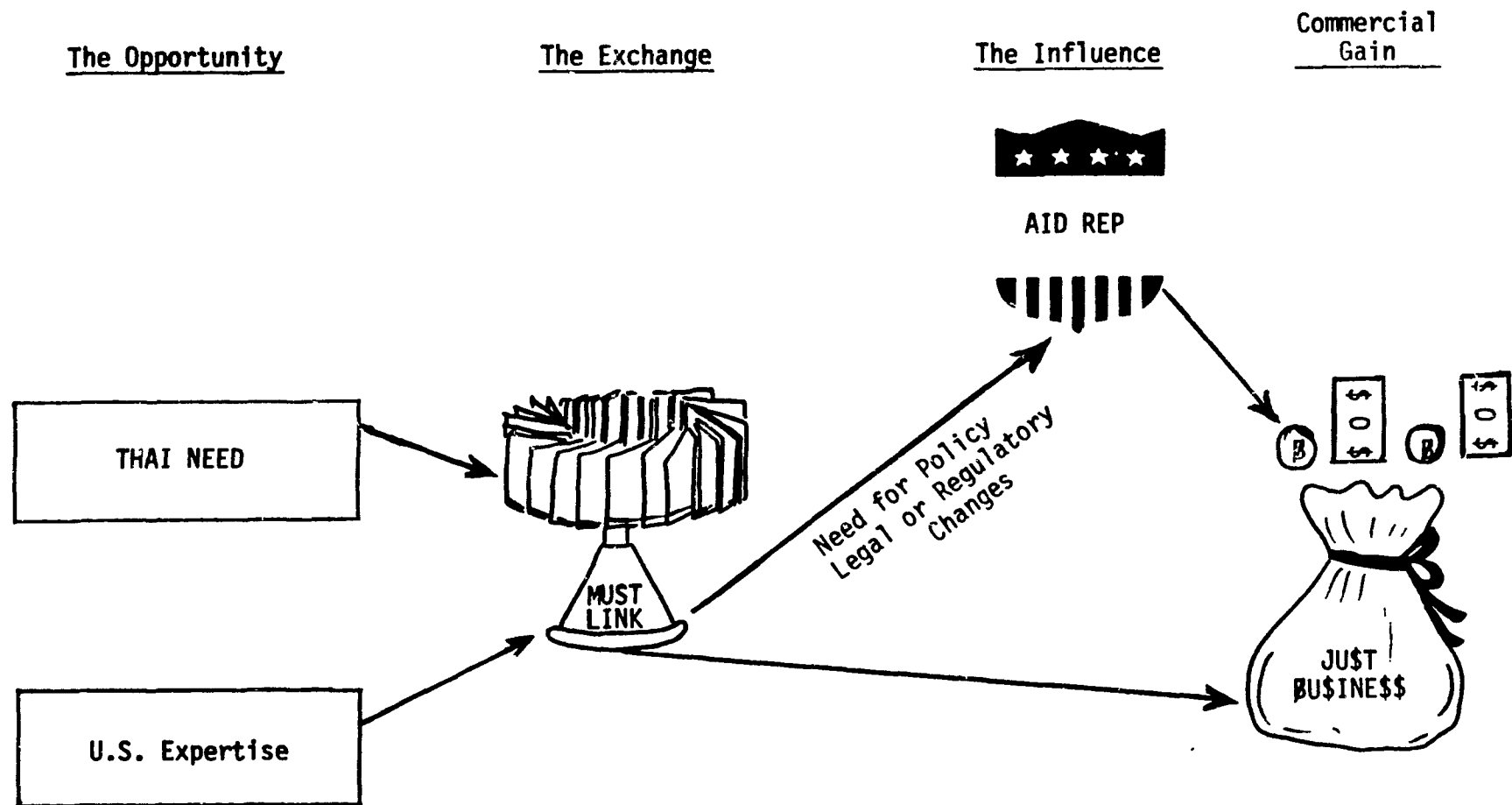


Chart 12



Assistance Management Plan Logframe

ANNEX A

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Strategic Goal:</u> Fully sustainable, increasingly broad-based Thai economic growth.</p>	<p>-Real GDP Growth Statistics (Actual and 5 and 10-year Projections) -Real GDP Growth Per Capita (Actuals and 5 and 10-year Projections)</p>	<p>-Monitoring selected published economic, social, political statistics; -TDRI CGE model and specific models re impact of external sector on Thai economy.</p>	<p>-Broader/deeper integration with the international economy will result in sustained broadly shared income growth.</p>
<p><u>Strategic Sub-Goal:</u> Broader and deeper integration of Thailand with the world economy, particularly the U.S.</p>	<p>-Various statistics selected specifically as measures of relative integration with the world economy across a range of public and private sector relationships including, but not limited to, those contained in the ADC Concepts Paper.</p>	<p>-Mission monitoring system providing at least annual updates of the statistical framework.</p>	<p>-External factors, e.g., recession and/or increased protectionism in industrialized countries do not offset positive impact of greater integration with the world economy;</p>
<p><u>Strategic Purposes:</u></p> <p>1. Increased efficiency and productivity of selected aspects of the Thai economy (Open Markets), which involve the three following sub-purposes:</p>	<p>-Selected indicators which either directly reflect changes in the policy or institutional framework, or serve as surrogates for change, e.g. aggregate measures of efficiency and productivity such as incremental capital output ratio; % of GDP derived from agriculture, industry, and services as a % of labor force in agriculture, industry and services.</p>	<p>-On-going contractual relationship with TDRI or similar organization for monitoring the range of selected indicators, conducting research where reliable data is not available, identifying additional barriers to Thai integration with the world economy and appropriate indicators of their reduction or elimination.</p>	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>a) Expanded quantity and improved quality of human capital, particularly with respect to the application and management of technology.</p> <p>b) Broader and deeper financial markets helping particularly to meet rising demand for infrastructure and social services.</p>	<p>-% of population completing primary, secondary, tertiary education; average number of years of formal education; wage rate trends for selected occupations, e.g. engineers, mid-level managers; other estimates of skilled and professional labor shortages.</p> <p>-Number and value of SET issues; number and value of government securities issues; number and value of infrastructure of utilities stock and bond issues; growth in insurance industry; value of outstanding private debt; commercial bank credit commitments; % of greater Bangkok served by Metro Water Authority; % households in Bangkok and selected provincial cities served by sewers or wastewater treatment; number of telephones per 100 urban population; projected supply of and demand for electric power; kilometers of urban road per 1,000 vehicles in Bangkok metro area; % of population covered by private pension or health insurance systems; and number of leasing arrangements supporting expansion of infrastructure and utilities.</p>		<p>-An inadequately skilled labor force is a key disincentive to increased foreign and domestic investment, and limits the Thai private sector's ability to translate new technologies into marketable products and services competitive in world as well as domestic markets.</p> <p>-Financial market deficiencies reduce Thai capacity to mobilize both domestic and foreign financial resources for productive investment, particularly in infrastructure, utilities, and social services.</p> <p>-Infrastructure/utilities shortfalls dampen Thai competitiveness by increasing the costs of production and deterring foreign investment.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
c) Amelioration of environmental degradation and depletion, particularly as it hampers growth in key industrial and tourism sectors.	<ul style="list-style-type: none"> -Various technical measures of water and air quality in Bangkok and selected tourism areas; projected supply of and demand for water in selected industrial/ tourism areas; growth rates in energy consumption; passage of environmental protection laws and regulations; and volume of toxic material safely disposed. 		<ul style="list-style-type: none"> -Environmental degradation increases production costs in the manufacturing and tourism sectors which together provide half of Thai foreign exchange earnings.
2. Sustainable political consensus on economic efficiency and productivity issues (Open Societies).	<ul style="list-style-type: none"> -Selected indicators which either directly reflect changes in political economy or serve as surrogates for change, e.g.,: -An expanded number of private Thai groups effectively engaging in dialogue with the RTG on political, economic and social issues; -Expansion of elected local government and/or legal, administrative, financial resource mobilization powers of local governments; -Qualitative increase in the amount of media coverage relating to economic issue; and -Economically rational resolution of individual pending issues, e.g. privatization, utility pricing. 	<ul style="list-style-type: none"> -Collection of baseline data and periodic updating by intermediary organizations involved in implementing Mission DPI program; -Empirical observation at the level of press, radio, TV; and -Sharing of information with other USG organizations, e.g., EMB/POL, USIS. 	<ul style="list-style-type: none"> -Expanded public voices and political, economic and social choices and more decentralized governance open a broader range of avenues for international economic integration.

***** NARRATIVE SUMMARY	***** OBJECTIVELY VERIFIABLE INDICATORS	***** MEANS OF VERIFICATION	***** IMPORTANT ASSUMPTIONS
<p>3. Expanded U.S.-Thai trade and investment and collaboration on global concerns of mutual interest (Mutual Interests).</p>	<p>-Increase in U.S. exports to and investment in Thailand above projected trend line.</p> <p>-Thai conformance to international practice on protection of intellectual property, import restrictions, export subsidies, and barriers to foreign investment.</p> <p>-Expanded Thai participation in information exchanges, research, international policy development mechanisms on issues such as environment, AIDS and other diseases, narcotics interdiction.</p> <p>-Number of joint U.S.-Thai activities in these areas.</p> <p>-Expanded and increasingly effective Thai aid program collaborating with AID in encouraging free markets throughout the developing world.</p>	<p>-Monitoring trade and investment data produced by other U.S. and Thai organizations.</p> <p>-Monitoring trade disputes in collaboration with other U.S. organizations;</p> <p>-Sharing information on Thai performance with other USG, Thai and multilateral organizations.</p>	<p>-U.S. trade and investment in Thailand can be expanded via promotion efforts, reduction/elimination of Thai policy or institutional barriers to expanded foreign participation in the Thai economy, and participation by U.S. firms and organizations in addressing continuing policy and institutional weakness of the Thai economy.</p> <p>-Increasing Thai maturity and responsibility on global issues will follow from broader and deeper integration with the world economy.</p>

***** NARRATIVE SUMMARY *****	***** OBJECTIVELY VERIFIABLE INDICATORS *****	***** MEANS OF VERIFICATION *****	***** IMPORTANT ASSUMPTIONS *****
<u>Strategic Outputs:</u> Completed menu items contributing to the accomplishment of strategic purposes and subpurposes.	-Accomplishment of individual activity objectives.	-Internal and external program and project evaluations; -Established program and project monitoring systems.	-On-going project portfolio can be restructured to facilitate the implementation of new program strategy. -New, sustainable program mechanisms can be put in place to address strategic purposes which the on-going project portfolio cannot effectively address.
<u>Strategic Inputs:</u> Bilateral, Central and Regional DA Resources, Tied Aid, Resources Generated from U.S. and Thai Public and Private Sector, AID Staff and OE Resources used effectively through various program mechanisms.	-Budget levels -Levels of non-AID investment	-Mission program accounting -Project/program accounts -Project/program evaluations	-A relatively small investment of AID program funds, staff and OE can have a significant impact on strategic outputs.

A Proposal to Further Streamline Mission Operations: 1990-1995

The approved first-stage restructuring package built in implementation/management/monitoring contracts to reduce the labor-intensity of our operations. USAID's six core projects are quite large umbrella-type programs, with many subprojects but without contractors to share the administration and substantive workload. These responsibilities fall squarely on the Mission's shoulders and are unsustainable as we begin the downsizing over the decade. Thus we proposed "managing out" to contractors to ease the burden, particularly for the EPD II and MANRES projects.

As we began preparing scopes of work for these contracts, we realized that administrative and cost savings can be realized by combining several contracts into one overall institutional contract for management of these two projects. Furthermore, in developing this Assistance Management Plan, we realized that new ADC initiatives would place new administrative and management responsibilities on USAID which could be alleviated by the use of contractors. And finally, as we reviewed our planned program portfolio for the first part of this decade, we realized that contractor support could help us carry out other functions, permitting additional staff reductions. Combining contractor support for EPD II and MANRES, the requirements of new ADC initiatives and residual Mission functions into one master contract would achieve even greater cost savings from sharing management and administrative overhead. Combining resources would also allow investments in accounting systems which would permit a consequent reduction in OE-funded accounting staff. Professional skills could also be shared, allowing for synergies and cross-fertilization among the projects.

A contractor could offer different types of management assistance for different projects as the Mission downsizes. Looking at the entire project portfolio over the first part of this decade from this perspective, we would see the master contract as encompassing:

(a) EPD II: Support with overall program oversight; technical analyses of subproject proposals; provision of technical assistance to RTG and private sector entities; administration of incountry and overseas training; financial management and accounting; and program monitoring, reporting and evaluation functions.

(b) MANRES: Support with overall program oversight; technical analyses of individual activities; provision of some technical

assistance; administration of incountry and overseas training; financial management and accounting; and program monitoring, reporting and evaluation functions.

(c) TGIF: By mid-decade MUST Link can be a fully functioning, free-standing brokering operation matching Thai growth needs with US expertise. However, in the early years, USAID will need to perform most of these functions. But just as it will be impossible for USAID to carry out the administrative requirements of the ongoing project portfolio with the downsizing already agreed to with AID/Washington, it will be equally impossible for USAID to implement the TGIF without outside contractor assistance. The master contract could help identify problem areas for support, procure the required assistance, implement activities and monitor the individual subprojects anticipated under the TGIF. In many ways, contractor support for the TGIF would parallel that of EPD II, but with the added dimension of brokering links between US expertise and Thai development problem-solvers. Using the contractor already in place for EPD II and MANRES would also allow earlier implementation of the TGIF than would otherwise be possible.

(d) Capital Projects Assistance: (under the Trade and Investment Support Project): As noted in this AMP, USAID anticipates assisting US firms to participate in the provision of needed infrastructure and utilities in Thailand, through a joint AID-ExIm Bank mixed credit facility and through AID provision of "soft-ware" (feasibility studies, engineering work, training and other short-term assistance). However, management of this endeavor presents USAID with two dilemmas: first, it will be relatively labor-intensive; and secondly, we have depleted most of our engineering talent over the years. Although we propose to program capital projects assistance under the TIS project, we do not see JUST Business as the appropriate institution to carry out such a program. Mixed credits should be more closely aligned with the United States Government. Thus, AID would have administrative responsibility for capital projects assistance in any event. The master contract could help the Mission administer a capital projects assistance program in Thailand.

(e) Other support functions: While the above proposals appear the most promising, the Mission could also consider relying on the institutional contractor for assistance in monitoring, reporting and evaluating aspects of the Science and Technology for Development, Agricultural Technology and Transfer and PVO II Projects, as well as for elements of JUST Business under the Trade and Investment Support Project. The master contractor could also be a source of expertise procured with Program Development and Support funds. It might also support certain centrally/regionally-funded activities which, while appropriate for an ADC Program in Thailand, might be precluded by our inability to provide adequate support and oversight.

In our search for more labor-saving ways of doing business in Thailand, we have investigated the Canadian foreign aid program managed by CIDA. Their program resembles ours in size and complexity, yet they administer it with only 4 Canadian and 6 Thai direct-hire employees working out of their Embassy. CIDA has achieved this efficient operation by creating a "technical cooperation facility" managed by a Canadian contractor with about 25 contract staff (10 expatriate and the rest local nationals) who do the day-to-day administration and monitoring of activities. The facility even provides administrative and logistical support for the small CIDA staff. CIDA staff reserve themselves for representation, making important program decisions and assuring themselves that the facility is doing its job well. We believe that adoption of the Canadian model would go a long way toward meeting our management objectives in the first part of this decade.

The scope of work for the master contract would need careful preparation to ensure a proper division of responsibilities between those which must remain with U.S. direct-hire staff (e.g. ultimate accountability, policy decisions and negotiations with the host government) and those which can legitimately be delegated to contractors. We would also need to ensure that proper safeguards are built in so that USAID retains sufficient control over how the contractor would function. The request for proposals should encourage either a prime contractor with subcontractors or a consortium approach for proposals, as we doubt any one firm would have sufficient skills within its organization for all of the possible tasks. Our intent would be to build up contractor capability in a careful, step-by-step fashion, beginning with the EPD II and MANRES projects, and adding other elements only as the need arose and as the contractor proved its capabilities.

ANNEX C - CAPITAL PROJECTS ASSISTANCE

Recent rapid economic growth has outstripped the capacity of Thailand's infrastructure to support further growth. Thailand now has less than 10% reserve electrical generating capacity. The Thai ratio of telephones per 1,000 urban inhabitants is the lowest in ASEAN. Transport infrastructure is inadequate for both cargo and passenger traffic. Less than 2% of Bangkok has sewers, and only 40% receives municipal water services. Estimated financial requirements to achieve moderate improvement in meeting infrastructure demand are on the order of \$8 billion. Even this sizeable figure still underestimates needed investments in water, wastewater and other environmental infrastructure because municipalities have yet to plan for all the needed investments.

While the provision of infrastructure in Thailand is unequivocally an area of developmental need and commercial opportunity, the U.S. private sector has not been a major player in the provision of Thai infrastructure since the 1970's. Many reasons account for this decline, including quality, price, and service factors. But over the last few years, even after favorable currency alignments and development of more sophisticated approaches to project finance, U.S. firms still find themselves losing most major contracts to Japanese or European firms - primarily the Japanese. If these losses were attributable only to the uncompetitive quality of U.S. goods and services or the cost of capital, the marketplace would have performed its function. But market evidence, supported by the results of bid tenders, points to distortions in financial markets, namely, the predatorial buying of market share with "mixed credits" primarily through the provision of large amounts of tied aid by other countries.

U.S. firms in Thailand believe USG funds should also be used for the "soft costs" of capital project development. Thai officials concur with this assessment. USAID grants, complementary to those of the Trade Development Program (TDP), for such "soft costs" as pre-feasibility and feasibility studies, environmental assessments, architectural and engineering (A&E) design work and other project development related training and technical assistance, would enhance the financial attractiveness of a U.S. bid. Furthermore, U.S. firms in Thailand offer evidence that the nationality which performs the feasibility work invariably obtains the design contract. There is also a high correlation between the design nationality and the nationality of the winner of the construction contract.

USAID's Assistance Management Plan targets the areas of intersection among its three program purposes:

- improving the efficiency and productivity of selected aspects of the Thai economy (including financial markets' ability to meet rising demand for infrastructure);
- encouraging a sustainable political consensus on steps required to address key problems, e.g. infrastructure shortages; and
- expanding U.S.-Thai trade and investment and collaboration on global concerns.

The provision of capital projects assistance to help meet Thai infrastructure needs would clearly be in the targeted focal area. Specifically:

- For Thailand to sustain economic growth, infrastructure expansion is needed to reduce the costs of doing business in Thailand.
- For the US and Thailand to sustain mature commercial, economic, and professional relationships, there must be a strong US private sector presence in Thailand.
- US participation in satisfying Thailand's infrastructure needs will encourage the US private sector to look carefully at other opportunities offered by this rapidly expanding economy.

The Mission's proposed Trade and Investment Support (TIS) Program is targeted for initiation in FY 90 as an innovative new program mechanism allowing the private sector itself to encourage expanded U.S.-Thai trade and investment. A capital projects assistance facility under the TIS program would support efficient U.S. suppliers of capital goods and services in winning contracts from which they would otherwise be precluded, and would provide substantial opportunity for follow-on sales of goods and services. USAID/Thailand would be prepared to provide approximately \$10 to \$15 million in deobligations from terminating projects or from new obligational authority for initiation. If the program proves as successful as many believe it might be in Thailand, additional funds could be made available through the annual budget process.

6

USAID/Thailand Assistance Management Plan

(Research Agenda)

(ANNEX D)

April, 1990

ANNEX D

USAID/THAILAND
ASSISTANCE MANAGEMENT PLAN

RESEARCH AGENDA

EXECUTIVE SUMMARIES

MARCH 1990

ANNEX D

ASSISTANCE MANAGEMENT PLAN

RESEARCH AGENDA

The "Advanced Developing Country Strategy for Thailand", a concepts paper prepared in October/November 1989, identified potential areas for programming of future USAID/Thailand funds. In order to provide a deeper empirical base and to sharpen program focus, studies were commissioned in the identified areas. The areas selected for the AMP research agenda were as follows:

- **Development of Thai Financial Markets** **Annex D-I**
- **Enhancing Private Sector Research and Development in Thailand** **Annex D-II**
- **Environmental Issues for an Advanced Developing Country** **Annex D-III**
- **Private Sector Participation in the Development of Thailand's Infrastructure and Utilities** **Annex D-IV**
- **Private Participation in the Development of Labor Force Skills** **Annex D-V**
- **Fostering Democratic Pluralism** **Annex D-VI**

In addition, the Mission contracted with Dr. David Dapice, Tufts University, to review and provide comments on selected aspects of the AMP. Dr. Dapice's comments are appended.

- **Comments on Financial Sector Strategy and Developing a Policy Agenda** **Annex D-VII**

The studies were contracted and implemented over the period December-March 1990. A list of the team members and USAID managers for each of the studies is also included as an annex.

- **List of AMP Study Team Members and USAID Managers** **Annex D-VIII**

Annex D-I

**USAID/THAILAND
AMP RESEARCH AGENDA**

DEVELOPMENT OF THAI FINANCIAL MARKETS

**Prepared by
PRICE WATERHOUSE**

**Funded under
FINANCIAL MARKETS DEVELOPMENT
PROJECT OF THE BUREAU FOR
PRIVATE ENTERPRISE**

MARCH 1990

EXECUTIVE SUMMARY

DEVELOPMENT OF THAI FINANCIAL MARKETS

Thailand has experienced remarkable economic development and social progress since the founding of the U.S. Agency for International Development (USAID) program in Thailand four decades ago. Real GDP growth, for example, has averaged over 7% for the last five years with the manufacturing sector contributing an increasingly important share. Beginning in 1985, AID shifted its program target away from a traditional focus on poverty and rural development to one which focused on the problems of Thailand as an emerging middle income country and, more recently, on facilitating Thailand's greater integration in the world economy.

USAID is currently conducting a review of its program in Thailand to determine the role it can best play in Thai development over the next few years. In support of this review, the Price Waterhouse Financial Sector Assessment team was given the mission of studying the Thai financial system to identify areas with the most potential for an AID role. Criteria used by the team included:

- Areas promising an increase in Thailand's integration with international financial markets.
- Areas with prospects for improved U.S.-Thai economic relationships including opportunities for greater, profitable participation by the U.S. private sector.
- Areas in which the Thai governmental authorities and private sector would find USAID assistance welcome and which have not become the focus of other donor agency programs.

While the PW team believes we have developed the outline for a USAID program that will contribute to the growth of Thailand, conclusions and recommendations for action should be put in proper context. Our visit to Thailand from February 12 to March 1 included 11 Thai business days and was a brief reconnaissance mission of a very large sector. We have developed a preliminary outline which will have to be tested with some sound market research before an actual portfolio of projects can or should be launched. A high-level Financial Sector Conference should follow to determine which of these recommendations should be pursued. Presented below is a brief overview of the Thai financial sector followed by the teams's recommendations and brief statements of the reasons for their selection.

The Thai Financial Sector

Commercial banking dominates the Thai financial sector, accounting for over 70% of the assets of all financial institutions and over 70% of all household savings mobilized by financial institutions. Thailand has at present 15 domestic commercial banks, 14 foreign banks and 94 finance companies, plus a number of government-sponsored institutions with banking functions, the most important of which is the Government Savings Bank. The system is not highly competitive. The largest bank, Bangkok Bank, has nearly 30% of the total assets of the system. The four largest banks together have more than 60%. No new Thai commercial bank has been licensed since 1957. The 14 foreign banks are limited to one branch each (except two of the oldest, which each have two) and this, together with other constraints, has confined them to a small corner of the banking market - they have only about 5% of total bank assets. A recent proposal by the Minister of Finance to add 5 more foreign banks met heavy resistance and has been deferred.

The Thai Bankers Association, with Bank of Thailand and Ministry of Finance approval, sets most deposit interest rates. Lack of competition accounts for the relatively wide spreads between deposit rates and loan rates of interest, which appear to be roughly a third larger than corresponding spreads in the industrial countries. It no doubt also accounts for a high level of profitability. The average return on net worth for Thai banks was over 8% in 1987 - a year in which three of the smaller banks were at a zero or negative earnings level - and is reported to have been around 15% in 1988 and 1989. But return on assets, a measure of efficiency, has been low, only 0.4% in 1987.

Not only is the Thai financial sector dominated by commercial banks and the Thai economy financed primarily by bank loans, but the financial structure is built on short-term maturities. Apart from government bonds, there are virtually no long-term debt instruments. Consequently, the only other organized source of capital is the equities market, with finance and securities companies accounting for 12% of the assets of Thai financial institutions. The finance companies are a recent addition to the Thai system, the first one having begun operations in 1969. Of the 94, 22 are licenced only as finance companies while 72 also have licences for the securities business. (Another 11 are securities companies only.) While there is less concentration than in the banking sector, the degree of competitiveness may be limited by the fact that the two sectors - banks and finance companies - are to a large degree interwoven. Many of the finance companies are subsidiaries of Thai banks and nearly all of the foreign banks have interests in a finance company. With respect to their role in the economy, pure finance companies are engaged primarily in commercial lending, leasing and other short-term financing businesses, while finance and securities companies may also undertake such activities as securities brokering, dealing, underwriting, investment advisory services and investment management.

74.

Of the several other banking or financial institutions in Thailand, the one most worth noting at this point is the Government Savings Bank (GSB). With hundreds of branches throughout the country, it collects mainly small deposits and invests mainly in government securities. Its assets account for approximately 8% of the assets of Thai financial institutions. In terms of size, it is followed by the Bank for Agriculture and Agricultural Cooperatives, savings cooperatives and life insurance companies, which account for approximately 2% each of Thai financial institution assets.

The Bank of Thailand (BOT) performs the role of a central bank setting policy on such issues as credit allocation, reserve and liquidity requirements; effecting monetary policy through such means as the repurchase market; and serving as the lender of last resort. There is no system of deposit insurance, but following a series of bank failures in the mid-1980s, the Financial Institutions Development Fund was created to deal with troubled institutions, or "life boat companies," as they are known. The Bank of Thailand now has a good system of off-site and on-site supervision of banks and finance companies. In the securities market, a Thai version of the U.S. Securities and Exchange Commission is currently being set up within the Fiscal Policy Office of the Ministry of Finance. A very brief description of the securities market appears in the next section under Conclusions and Recommendations.

CONCLUSIONS AND RECOMMENDATIONS

This summary now turns to those areas of opportunity for AID both to assist in the development of Thai financial markets and to aid U.S. business in penetrating the expanding Thai markets.

1. EXPANSION OF THE EQUITY MARKET

While growing rapidly, Thailand's equity market is still in its early stages of development. At the end of 1989, there were only 255,000 investors - less than one percent of the population - who owned listed securities. The number of listed companies has increased from 93 in 1986 to 177 in 1989, but is still small. Trading hours are from 9:30 to 11:30 A.M., Monday through Friday, and total shares traded in 1989 amounted to between three and four weeks of normal trading on the New York Stock Exchange (NYSE).

Recommendation to AID:

To increase the number of listed companies, AID could devise programs, first, to better understand the relative attractiveness to companies of debt versus equity financing and the reasons therefore and, second, to stimulate an increase in the supply of securities by removing any non-market oriented disincentives. An objective of these programs, which are likely to require long-term technical assistance, would be to equalize the after-tax, risk-adjusted returns for debt and equity. In

addition, AID could provide assistance in the development of a mutual fund industry. More competition in this area would increase the level of marketing of equities and help to broaden the base of participation by Thai investors (See Recommendation No. 3 - Investment Company Act.)

2. IMPROVING THE QUALITY OF FINANCIAL INFORMATION

Reliable financial statements are lacking for all but a small group of Thai companies. During the interviews, the PW team was told that no more than 30 listed companies produced financial statements containing a level of reliability required by U.S. standards. This quality of information issue has two important implications for the Thai financial markets. In order to become an important regional financial center, the domestic participants in the Thai equity market must be able to provide global investors with reliable financial research on the companies listed on the SET. Furthermore, before either a primary or secondary commercial paper market or long-term debt market can be developed, credit analysts will have to have confidence in the reliability and quality of the financial information provided by listed companies.

Recommendation to AID:

AID could assist in increasing the demand for and supply of higher quality financial information. A possible AID role would be coordinating and accelerating the establishment of a Thai Chartered Financial Analysts (CFA) program. The officers of the SET and a number of leaders of the securities industry have already initiated discussions with the Securities Analyst Society in the United States about developing a program for training, testing and chartering financial analysts. AID might also create a project to examine the desirability of setting up a Thai version of the U.S. Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA) to develop better financial reporting standards. A credit rating agency, badly needed and the subject of a study by the Asian Development Bank (ADB), may offer additional opportunity for useful AID assistance at some stage.

3. LEGAL AND REGULATORY REFORM

The Thai financial system operates under legislation that dates from the 1920's and 30's and has been little changed since. Geared toward the small, family-run businesses of that time, it does not recognize the ways in which modern companies operate. There are no provisions for trusts which inhibits the development of corporate bonds and asset-backed securities. Without a bankruptcy law such as Chapter 11 in the U.S., creditors are not able to step in and keep a troubled company going. Furthermore, businesses cannot pledge movable property such as aircraft or automobiles as collateral. Stiff penalties for noncompliance with reporting requirements seriously detracts from Thailand's desirability as a country in which to do business.

16

Recommendation to AID:

Many aspects of the Thai legal and regulatory system are under review. For example, the Asian Development Bank is assisting with a study of securities regulation by the Ministry of Finance. We have had some indication that AID assistance would be welcome on particular issues such as a trustee law or a revised bankruptcy code, where U.S. experience is relevant. The creation of a Thai version of the U.S. Investment Company Act of 1940, for example, would encourage the registration of new, competing investment management and brokerage companies while protecting shareholders against such abuses as securities fraud and insider trading. While the PW team identified 3 or 4 major areas in need of reform, further study would undoubtedly uncover other areas.

4. A NATIONAL SAVINGS PLAN

The remarkable performance of the Thai economy over the last three years (1987-1989) has been accomplished without pushing the savings gap, as measured by the current account deficit in the balance of payments, to an intolerable level. The gap was about 1% of GNP in 1987, 3% of GNP in 1988 and crept up to an estimated 3.2% in 1989 - just over \$2 billion. But there is no assurance that it will not rise within the next two to four years, and there are several reasons to believe that it may rise to a much higher level. In the first place, it is unquestionable that investments in transport and communications, power and urban facilities have not kept pace with the rapid growth of the economy. Choke points are becoming obvious in port congestion, shortages of telephone lines, and traffic jams in Bangkok, to name a few. By common assent, Thailand now has severe problems in such areas as air and water pollution, and social needs, including, for example, an expanded health care program, are looming. How can expenditures of this magnitude be funded? If the national savings rate does not rise, or actually falls, as it might and if the government's fiscal surplus declines, the burden would fall entirely on the balance of payments. Former Bank of Thailand Governor Kamchorn predicted that the balance of payments, - i.e., savings - gap would rise to \$6.5 billion by 1991, an amount that would probably equal about 7 to 8% of GNP. While it would be misleading to suggest that a savings gap "crisis" is in the making, the sooner the savings rate is raised, the better. A national savings program would bring about a large increase in savings, in addition to its important social value within the context of a rapidly modernizing economy. The establishment of a national savings program is an undertaking that touches on several major policy areas, including macroeconomic, fiscal and financial sector policies. The current ceilings on interest rates - an important element of macroeconomic policy - prevent the financial system from operating efficiently to capture savings and channel credit away from borrowers in start-up companies and others who are less established. AID's role could be in addressing some of these issues at a policy level or in assisting in the development of a variety of programs that would expand and diversify the Thai financial sector.

Recommendation to AID:

AID should first decide whether it prefers to address these issues at the policy level or get involved in the development of specific programs such as a national savings plan, expansion of the insurance industry, or the promotion of private pension funds. Taking the example of a national savings plan, AID could make a major contribution to the development of a national savings plan by developing comparisons of national provident funds that exist in Malaysia and Singapore and examining involuntary savings arrangements in other countries. Any type of national savings program that is created will mean that very large funds will need to be placed prudently in an array of investments, some of which could be placed outside of Thailand. Potential for U.S. private sector participation exists, if the Thai savings program assets were to be invested by private money management firms.

5. BANK TRAINING

The Thai banking sector - well-established, concentrated and highly profitable - offers little from the point of view of an AID role. However, since it is, and will continue for some time to be, the dominant part of the Thai system, handling up to 70% of household savings, it would be desirable, we believe, to maintain contact with it.

Recommendation to AID:

This program might be achieved at low cost by support of the training institute being set up by the Thai Bankers Association. The exposure of young Thai bankers to U.S. methods and equipment might be used as a vehicle for bringing U.S. information technology into the banking system on a very extensive basis.

6. DEVELOPING THE SET INTO A REGIONAL SECURITIES MARKETS

Trading volume is the key to a successful and growing market. The Exchange community in Thailand certainly understands this. It is less clear, however, that the various public and private sector constituencies that make up the Exchange community unanimously agree on a specific agenda for the growth of trading volume that will enable the SET to become a major regional trading market. Moreover, like most financial institutions in Thailand, the SET's processing system is very people and paper intensive. But this situation is changing very rapidly. The SET has a turnkey contract with the Midwest Stock Exchange to automate its trading floor, and this is a good first step toward developing a broader and more efficient market. The system is scheduled to go online in the first quarter of 1991. Most member firms are planning their own systems to interface with the newly automated floor. Obviously, with a growing equities market, 1991 will be a first step in the evolution of the SET to a regional securities market.

15

Recommendation to AID:

A director of the Association of Members of the Securities Exchange specifically requested that USAID develop a consulting program that would examine the organizational structure and activities of the world's major exchanges and provide an interchange of ideas between the public and private constituencies of the SET. The role would be that of an impartial advisor who would assist in reaching a consensus among the SET, the Ministry of Finance, the Bank of Thailand, member firms, listed companies and investor constituencies on the organizational and policy issues relating to the evolution of the SET into a major regional securities market. If undertaken, this project could lead to a much closer linkage of the SET with the New York and other stock exchanges in the United States. Eventually, stocks might be crosslisted in both markets to the mutual advantage of both the NYSE and the SET member firms. An American Depositary Receipt program might be established for Thai companies seeking a presence in U.S. markets.

7. PRIVATIZATION

The Thai government is presently working on plans to privatize some if not all of its 63 state-owned companies. The issue is politically sensitive, involving resistance from the unions. As long as the privatization program stays on track, over the long term it will enable the RTG to meet several important objectives, namely increasing the supply and quality of vital services, improving economic efficiency, increasing share listings and reducing the strain on the fiscal budget.

Recommendation to AID:

While separate teams will be making their recommendation to AID regarding privatization, the contribution of such a program to the overall goal of financial markets development is plainly clear; very large companies would be listed on the SET. USAID could play a catalyst role that could involve finding a plan that will satisfy all major interested groups and move the program forward. This program could offer a range of opportunities for U.S. business and financial firms.

NEXT STEPS

As a continuation of this project, the PW team suggests that the Mission and Price Waterhouse work together to organize a high-level weekend conference of a combined groups of Thai-U.S. public-private sector leaders in Thailand in August-September 1989 to examine the proposals in this report. The conference, funded by USAID, might be co-hosted with the Bank of Thailand, the Ministry of Finance and the Securities Exchange of Thailand. It would have two very important purposes. The conference would send an important signal to the right people in both countries that USAID is action-oriented in its response to market developments. The markets will not wait for lengthy studies. Secondly, bringing together key decision-makers from both countries, the

conference would telescope the time required to test the viability and value of the recommendations in this report.

In summary, the team believes there is an important role that the USAID Mission can play in developing Thai financial markets. The team recommends that planning for a high-level financial markets conference begin immediately, targeting a conference to take place in August-September. A final report, outlining a more concrete action program for AID to follow, would be drafted after the conference to express the views developed there.

**USAID/THAILAND
AMP RESEARCH AGENDA**

**ENHANCING PRIVATE SECTOR RESEARCH AND
DEVELOPMENT IN THAILAND**

Prepared by
THAILAND DEVELOPMENT RESEARCH INSTITUTE
with
SRI INTERNATIONAL

MARCH 1990

EXECUTIVE SUMMARY

ENHANCING PRIVATE SECTOR RESEARCH AND
DEVELOPMENT IN THAILAND

BACKGROUND

Brief for the Study

This report was commissioned by USAID/Thailand as an input for preparation of its Advanced Developing Country Strategy. The overall aim was to provide suggestions on enhancing private sector participation in R&D, which is defined here as systematic work to produce new materials, products, processes, systems or services, or to improve those already deployed. However, R&D is only one of many industrial activities relating to the use of technology. Accordingly in this study we have also considered the broader issues of Thailand's technology utilization. We have placed our overall discussion against the background of Thailand's economy and technology infrastructure.

Industry is regarded as having three forms of technology activity. At Level 1, existing technology which is available in international markets is purchased then deployed or utilized in its original form by local industry. At level 2, companies conduct applied research to develop and adapt new products and processes to meet market demands and competition. Finally, in an advanced industrial milieu level 3 activities are common, i.e., basic research is conducted to develop scientific principles for the generation of new technologies. There is not always a simple progression from level 1 to level 3, but it is clear that the stage of industrial development does heavily influence the type of R&D undertaken. In the following analysis we have therefore considered R&D demand and supply issues at these three levels, with particular reference to S&T organizations, human resources and finance.

Economic Background and Orientation of Thai Industry

The Thai manufacturing sector has been growing at a high rate for many years. Between 1975-1985 real growth averaged 8.3% per year and in the past few years, has accelerated to over 12.0% per annum. Several local factors have been associated with this rapid rate of manufacturing growth, including protection with import taxes dating from the 1960s and, more recently, the availability of efficient labor at relatively low wages. Since the international currency realignments during the first half of the 1980s many sub-sectors of local industry have become

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internationally competitive, making protection of domestic markets from imports less necessary. Despite this, the level of competition in some industrial goods sectors remains low and most manufacturing companies have not yet developed technology activities beyond level 1. Some companies (usually large enterprises) operate at level 2, but level 3 activities are extremely rare.

Status of R&D in Thailand

Overall spending on R&D is well below that of other countries in the region: 0.22% of GDP in 1987, compared with about 2% for Korea and about 3% for Japan. The total expenditure for R&D in 1987 was \$106.6 million. Over half this was earmarked for agricultural research; only \$32.4 million was allocated to university R&D. Industrially relevant R&D is supported by the Science Technology and Development Board (STDB), and Ministry of Science, Technology and Energy's (MOSTE) three national centers (for biotechnology, materials and electronics research). But these together only spent \$6 million on industry-related research in 1989. These figures are extremely low; a large engineering department in a U.S. university spends more on R&D than the entire public sector expenditure on university research in Thailand. The investment in R&D in the private sector is even lower. The most reliable figures available suggest that industry invests only about 0.1% of sales revenue on R&D annually; an observation which may explain the widely reported weakness of innovative capability in Thai companies. This weakness is both a symptom and cause of the current emphasis of Thai industry on level 1 activities.

DIAGNOSIS OF THE PROBLEMS: CONSTRAINTS TO R&D

1) CONSTRAINTS DUE TO ECONOMIC AND POLICY FACTORS

o High Growth Economy Limits the Need for Industrial R&D

Manufacturing companies are rapidly scaling up production capacity to meet excess demand. Under these conditions, we found little pressure within companies interviewed for R&D leading to innovation or differentiation of products.

o Restricted Market Entry Lowers Competition

Government policies which limit the number of companies entering individual sectors is said to avoid excess supply and achieve economies of scale. However, one adverse effect is that this also reduces the competitive pressure needed for stimulating R&D activities.

o High Cost of R&D Equipment and Precision Instruments

Taxes on equipment for R&D limits the ability of small and medium size companies to purchase necessary laboratory materials and measuring instruments.

o Fiscal Disincentives for R&D

Disincentives exist such as taxes on royalties and license fees for foreign technology. In addition, the incentives for R&D that are typically provided by governments in other countries are not available in Thailand such as tax credits, deferred profits and accelerated depreciation of R&D equipment.

2) CONSTRAINTS DUE TO THAILAND'S TECHNOLOGY INFRASTRUCTURE

S&T Institutions

The national organizational infrastructure for technology and R&D was generally considered to be inadequate. At level 1, there is a need for improved availability of technical consultancy services because foreign equipment vendors can only supply very limited assistance. Equally, companies wished to see better supply of technical testing and calibration services and improved access to information on technical supplies, products and services. At level 2, the availability of information on more fundamental S&T activities in the public sector was also regarded as being inadequate. Companies wishing to collaborate in R&D and technical problem solving with universities and other public sector organizations report difficulty in rapidly identifying the expertise and research outputs of domestic S&T institutions.

Human Resources

At level 1, there is a clear shortage of technical manpower to satisfy present levels of demand for production engineers and technicians, who are necessary for implementing and operating imported, "off-the-shelf" technology. But, at level 2, where there is "in-house" development of technology through R&D activities, there is, paradoxically, no obvious shortage of manpower. However, this is more due to underactivity in R&D on the part of Thai companies, than to oversupply of graduates skilled in R&D. Nevertheless, future anticipated increases in private sector R&D will require an improved supply of high level manpower. At level 1, this will be necessary in terms of sheer numbers, but at level 2, greater attention must be given to improving the skills profile of technical personnel who will assume roles in company R&D. At present, most S&T graduates are not adequately prepared with the skills and resourcefulness necessary for exploratory R&D.

Finance

For level 1 activities, i.e. the purchase and utilization of technology, the supply of finance was not found to be a primary constraint. Existing large and medium size companies can buy foreign technology (such as production machinery) using internal resources, or raise loans from financial institutions as part of an overall business development plan. Small companies and 'start-ups' inevitably experienced greater difficulty. However, to encourage companies to move into level 2 R&D, incentives may be needed such as a reduction in the cost of borrowing.

There are presently three sources of soft loan with low interest: MOSTE, STDB and the Bank of Thailand (BOT). MOSTE's Revolving Fund for Research and Development of Technology supports level 1 activities at up to \$0.4 million per project, while the equivalent figure for level 2 projects is \$0.2 million. STDB's Company-Directed Research Development and Engineering Loan Project is for level 2 activities, but to date has only disbursed a total of \$0.4 million to two projects. STDB also has a Grant Program for level 2 activities, with a ceiling of \$0.12 million per project, which will match up to 50% of a company's expenditure for R&D on new products and processes. These grants are non-repayable and very attractive. However, the total size of this fund is only \$1.44 million, which will support a mere 12 projects. Finally, BOT has provided Industrial Finance Corporation of Thailand (IFCT) with \$4.0 million for low interest loans up to a maximum of \$0.4 million per project. This program was started in mid-1989, but to date there have been no applicants.

These sources of funds for R&D have undoubtedly been underutilized by industry. Four reasons can be identified. First, private sector industry is not sufficiently aware of the various loan and grant programs. Second, the preparation of detailed R&D proposals is beyond the capability of many small companies. Third, the loans are unattractive because they are fully repayable, and require collateral as does any standard loan from a commercial bank. And, fourth, as noted earlier, incentives to invest in R&D, especially risky R&D at level 3, are weak. High profits can be earned at present by increasing production of existing goods and services using "off-the-shelf" technology.

PROSPECTS FOR R&D IN THE THAI PRIVATE SECTOR

Despite the weakness of present technology activities revealed by this study, the future appears more promising. Most executives interviewed anticipated that there will be strong need for "in-house" R&D after another 5 years. This will be due to the inevitable maturing of Thai industry, an increase in market size and greater domestic and international competition leading to a need for increased industrial innovation.

OVERCOMING THE CONSTRAINTS: RECOMMENDATIONS FOR USAID

To create a satisfactory technology base for Thailand, strategies are needed to address constraints due both to the prevailing economic context and the country's organizational infrastructure for technology. It is in the realm of strengthening infrastructure that USAID can probably have most influence. Accordingly, our recommendations are confined to suggestions for enhancing the technology infrastructure necessary for level 1 and level 2 activities.

1) S&T ORGANIZATIONS: BUILDING THE INSTITUTIONAL INFRASTRUCTURE

Recommendation 1: Industrial Extension Service. An industrial extension service should be developed to provide industry-specific

engineering diagnosis, market analysis, human resource assessment and brokerage of modernization loans and equipment. The first priority in enhancing private sector R&D must be to stimulate level 1 technology activities. One way of doing this would be to create a pro-active, private or public technical consultancy service which goes out into industry to identify where technology and R&D could improve business, and to demonstrate this to company managers. STDB is operating one type of service in this area: the Diagnostic Research Design Service (DRDS). This kind of initiative should be broadened and extended to include not only technical, but also financial and management services. The number of companies receiving assistance should also be increased beyond the present number of 175. One excellent model is the Hong Kong Productivity Center, funded by government and industry fees.

Recommendation 2: Enhance the network of technology-support vendors. An initiative should be launched to enhance the capabilities of vendors of raw materials, intermediate goods and value-added services to support the level 1 activities of local manufacturers. First, it will be necessary to identify existing and potential vendors, and provide them with assistance for technical upgrading. Where the needs of Thai industry cannot be satisfied by elevating the capabilities of these existing vendors, U.S. companies could be identified and integrated within the supplier network. This initiative could be carried out through programs such as the proposed AID JUST Business enterprise, or by a new organization representing local company and U.S. interests. It should focus on local needs such as CAD services, mold making and precision plastics.

Two other deficiencies were identified in the provision of institutional infrastructure. At level 1, there is inadequate provision of a national technology testing and calibration system and, at level 2 there is lack of access to information on S&T activities in local institutions.

Recommendation 3: Establish a strategy for a national industrial testing and calibration service. An analysis should be conducted of services provided by existing technology centers, and a strategy proposed for integrating these into a national industrial testing and calibration service. This analysis should focus on level 1 technology and lead to proposals to remedy existing weaknesses, and assess the institutions and resources required.

Recommendation 4: Develop databases on local S&T information and resources. This initiative should include the development of databases and directories on the resources available at local S&T institutions, along with data on their R&D outputs. These databases would be designed primarily to meet the information needs of private industry, and also aim to provide the basis for R&D management information systems in public research funding agencies and policy-making government departments.

2) HUMAN RESOURCES: INVESTING IN THE FUTURE OF TECHNOLOGY MANPOWER

Recommendation 5: Establish a new advanced technology training initiative. This should aim to provide industry specific training in

areas such as advanced engineering and technology management, which are not currently provided at existing universities or organizations such as the Technological Promotion Association (Thai-Japan). Although demand for R&D manpower at level 2 is not excessive at present, there will be a clear need in the medium term for graduate level engineers and scientists to be better trained in the techniques of industrial R&D. The proposed service could be provided either through a free-standing organization supported by membership charges paid by companies, or in conjunction with existing institutions. It should aim to diagnose professional technology training needs (at the level of individuals and companies), act as a broker for training services using both local and U.S. resources (e.g., satellite education, videotape, consultants and educational software) and, where necessary, prepare and deliver courses.

Recommendation 6: Sponsor the establishment of a graduate engineering school. This could be a joint venture between an American and local university or any private organization able to provide adequate facilities and staff back-up. The Sasin Graduate Institute of Business Administration, a joint program between Chulalongkorn University, the Wharton School of the University of Pennsylvania and J.L. Kellogg Graduate School of Management, Northwestern University is one arrangement which may serve as a model here. USAID initiatives could include (a) identifying interested universities in the United States, (b) calling for and screening partners, (c) sponsoring meetings and study tours of US-Thai academic institutions and, (d) providing seed money for the initial start-up organization. In short, USAID would act as a broker or a match-maker. The proposed graduate school, like Sasin, would be expected to be self-supporting in a few years.

3) FINANCE: IMPROVING FUNDING FOR TECHNOLOGY DEVELOPMENT

Recommendation 7: Matching grants for industrial R&D. A grant fund should be established to match Thai industry R&D which is conducted either collaboratively with another company (preferably a U.S. partner), or through work with an applied research organization in Thailand. The program should focus on level 2 technology by financing early, high-risk R&D, and subsequent development of prototypes. It should not be restricted to joint R&D between companies and universities, but would also aim to encourage company to company collaboration, both locally and internationally. The program should be widely advertised, and application procedures kept as simple as possible. It may be possible to integrate this program with the Industrial Extension Service proposed in recommendation 1, which could assist companies in making applications. The grants themselves should be non-repayable, but royalties could be levied on any sales of products based on the technology developed. This type of conditional grant is analogous in mechanism to the Technology Transfer Fund proposed by Harrell (1989 - USAID contract ANE-0249-C-00-8052). Harrell's other proposed funds (the New Venture Development Fund and the University Cooperative Financing Facility) are not immediately relevant to Thailand's present needs, but should be reconsidered in 3-5 years.

51

CONCLUSIONS: MOVING AHEAD

The preceding analysis summarizes the findings of the project team. There are a series of next steps which USAID could consider. These include: a) priority ranking of the recommendations, b) assessing the feasibility of implementing the recommendations in the next five years, and c) planning the program actions for each priority recommendation. Also of importance will be careful consideration of a mechanism for integrating actions resulting from each recommendation to ensure coherence of activities.

In addition, there are important national and bilateral policy issues that should be advocated by USAID to enhance the overall environment for technology development in Thailand. These are outlined below.

- 1) Reduce import tariffs on R&D equipment and precision instruments;
- 2) Increase local competition;
- 3) Provide fiscal incentives for R&D in the medium term;
- 4) Enhance public sector R&D by converting the three MOSTE centers into research institutes;
- 5) Examine present and future provision for intellectual property protection.

Although these actions are primarily under the control of the Thai government, it is possible that USAID could influence the policy environment indirectly, for example by sponsoring studies to analyze the local demand/supply dynamics for technology and the probable effects of changes in fiscal policy on the technology environment. Equally, USAID could organize a series of seminars bringing together public sector officials with industry executives and technology policy analysts.

USAID/THAILAND
AMP RESEARCH AGENDA

ENVIRONMENTAL ISSUES FOR AN
ADVANCED DEVELOPING COUNTRY

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81

EXECUTIVE SUMMARY

ENVIRONMENTAL ISSUES FOR AN ADVANCED DEVELOPING COUNTRY

INTRODUCTION

The terms of reference of the Environmental Advisory Team were to:

- (a) Assess and identify the macroeconomic and sectoral trends critical to present and future economic growth;
- (b) Identify potential natural resource and environmental constraints in sustaining these trends;
- (c) Recommend an appropriate environmental program for USAID in Thailand, that focuses on environmental constraints to the leading growth sectors, enhances the role of the private sector and advances the US-Thai mutual interests;
- (d) To assess the USAID/Thailand natural resources and environment program with emphasis on MANRES and recommend modifications in the light of the conclusions of items (a) to (c).

Points (a) to (c) are covered in this executive summary and the main report. Point (d) is covered in an addendum that derives the implications of our conclusions for MANRES and describes one possible avenue of restructuring.

PROSPECTS FOR ECONOMIC GROWTH

1. Economic growth in Thailand over the past 30 years has been higher and steadier than that of most other comparable developing countries. It has averaged 6-7% in the past 20 years and has accelerated in recent years to reach a double digit rate. It is projected by the team that the Thailand economy will continue to grow at a rate exceeding 9% for the next 2-3 years; it will slow down to 8% during 1992-95 and stabilize around a respectable 6% during the latter part of the 1990s.
2. Thailand has accomplished this remarkable success through a dynamic export-oriented private sector operating in increasingly open markets. The government has contributed to this success through prudent macroeconomic management, provision of physical and social infrastructure and export promotion. Thailand's rich natural

resource base, fertile land, abundant water, extensive forests, rich fisheries and attractive natural environment have made a critical contribution to economic growth by generating investable surpluses in terms of food, labor, savings and foreign exchange, for industrialization, at a time when there was little else to fuel economic growth. Partly because of this intensive resource exploitation and partly because of mismanagement, many of Thailand's natural resources are now depleted or degraded.

3. The center of gravity of Thailand's growth has shifted from agriculture and other resource-based activities to industry and services. The share of agriculture in GDP has declined from 27% in 1970 to 16% today and is expected to fall below 9% by the year 2000. In contrast, the share of industry has increased from 26% in 1970 to 36% today and is expected to reach 41% by the year 2000. Services grew more slowly, increasing their share from 47% in 1970 to 49% today; they are projected to slightly exceed 50% by the year 2000. Within the industry sector the fastest growing sub-sector has been export-oriented manufacturing; within services, tourism; and within agriculture, high-value export crops. It is expected that these same sectors will continue to be the leading growth sectors in the 1990s. The team projects that industry and services will grow during the 1990s at rates exceeding 7% while traditional agriculture will average 2%.
4. Evidently, the sources of growth have shifted. On the supply side, savings and capital accumulation, technology and skills and imported materials and capital equipment are increasingly replacing land expansion and resource depletion as new sources of growth. On the demand side, export demand and growth of domestic demand derived from higher incomes and changing tastes are replacing subsistence demand driven by population growth and import substitution driven by protectionist policies. The contribution of export demand to economic growth rose from 11% in the 1960 to 45% in the late 1980s, while import substitution made a negative contribution taking away as much as 23% of growth during 1985-88. By 1987 only 44% of the manufacturing value added was natural-resource dependent and 56% import-dependent; about 2/3 of each was export-oriented.
5. Clearly the future engine of Thailand's economic growth is export-oriented industry, tourism, urban-based commerce and financial services, and high-value export agriculture, in increasingly processed form. Labor costs are still relatively low for the level of skills, and adaptability and discipline characteristic of the Thai labor force. Thailand is well prepared to assume industries of moderate labor costs and intermediate level of technology that are being spun off by more advanced NICs as their labor costs rise and technological sophistication increases. Thailand still accounts for a negligible share (less than 0.1%) of the world manufactured exports and therefore fears of market saturation are unfounded. External shocks, and rich country protectionism do not pose a major risk to sustained growth of export

oriented industries because of the diversified composition of Thai exports and the demonstrated ability of the industry to shift product composition to avoid protectionism and find new market niches. Under rather conservative assumptions industry is projected to continue its double-digit growth through 1992, averaging at least 9% growth during 1992-95 and growing at over 6% for the last half of the decade. Thailand continues to be a choice destination for foreign investment and is rapidly emerging as a regional center for financial, trade and transportation services. The growth potential of tourism is at least as strong because of Thailand's considerable tourism assets, including a scenic natural environment, exotic culture, world class hotels and airlines, and an unsurpassed level of service. The rapid growth of industry and tourism and the development needs of neighboring countries will further stimulate the growth of related services such as trade and commerce, financial services and banking, insurance, communications, etc.

6. To sum up, the prospects for continued economic growth are excellent. With a rapidly expanding cadre of entrepreneurs and the rise of a sizable and growing middle class there is a large and expanding constituency for continued economic growth. With its increasing integration in the world financial and capital markets, and the successful penetration of world product markets, Thailand's open and flexible economy faces abundant opportunities for expansion. Yet, threatening clouds are looming in the horizon. Constraints are emerging everywhere. Some are structural, some are institutional, some are policy-related and others are infrastructural. Inadequate physical and social infrastructure, labor skill shortages, an unresponsive bureaucracy, an outdated legal system, excessive centralization of authority and lagging policy reforms may retard the economy's response to new market opportunities, and thereby slow down economic growth. No less threatening to economic growth are unchecked environmental problems: air pollution arising from the growing amounts of industrial and auto emissions; water pollution arising from wastewater from industries and households; solid waste especially hazardous waste from hospitals, toxic waste from industries and household garbage; coastal pollution and degradation of the natural environment caused by haphazard tourist development; land subsidence and flood damage arising from excessive pumping of ground water; rapidly disappearing forests and open spaces and deteriorating quality of life in major urban centers and tourist resorts, as a result of congestion, noise, air and water pollution. Failure to develop and implement sound environmental policies in any of the leading growth sectors can severely limit the sustainable growth of the Thai economy.

ENVIRONMENTAL CONSTRAINTS ON PROSPECTS FOR ECONOMIC GROWTH

7. The Urban Sector, the major target of foreign and domestic investment, and the producer of more than 80% of GDP and 100% of all net new jobs, is being undermined by infrastructural bottlenecks

and mounting environmental problems that include traffic congestion, water and air pollution, solid waste and lack of a sewerage system. According to some estimates traffic congestion in Bangkok cost the economy close to 10% of GDP last year. Bangkok is the largest city outside China without a sewerage system and Bangkok's canals are probably the most polluted in the world. At least 85% of the waste that find its way into Bangkok waterways comes from residential and restaurant use. Failure to impose appropriate charges means that otherwise cost-effective resource recovery and recycling programs are impossible to implement. Use of klongs as open sewers increases the risk of disease, lowers property values and ultimately impacts productivity and the ability to attract foreign investment. The Bangkok Metropolitan Area (BMA) is literally being undermined by excessive groundwater pumping, that leads to ground subsidence, lower quality water and ultimately higher costs. Groundwater pumping is being subsidized by below-cost charges that are rarely collected. Leaks in municipal water systems result in loss of up to 30% of public water supply and absorption of contaminated surface water due to loss of pressure. Artificially low water rates subsidize inefficient use and production of correspondingly large quantities of wastewater while water supply costs are not being recovered to repair leaks and provide additional supplies.

8. The industrial sector, the major source of value added and export growth is facing problems of inadequate supplies of water, clean air and sewerage as well as congestion and solid waste disposal problems all of which increase the costs of doing business in Thailand. Disposal of dyes from textile operations and heavy metals from electroplating contaminates the waste stream foreclosing future recycling options for domestic sewage and imposing major hidden costs on the economy. In a competitive economy failure to enforce reasonable environmental requirements or charges ultimately penalizes those manufacturers that provide effective controls while rewarding those who impose additional burdens on the economy through improper disposal.
9. The tourist sector, the single largest earner of foreign exchange, faces a growing danger of debasing itself by failing to invest in, and preserve the environmental resources which attract the high expenditure tourist in the first place. Pattaya, once an attractive beach resort suffers from inadequate water supply, and sewerage, polluted beaches and haphazard development, to such an extent that it has been removed from many overseas recommended package tours (see Bangkok Post, March 23, 1990). Chiangmai and Phuket seem destined for the same fate unless current environmental trends are reversed. The signs are not encouraging: tourist resorts receive a disproportionately small share of central government budget, the local property tax system remains poorly developed, and the private provision of public services is restricted. The current regulatory structure penalizes responsible actors through payment of higher costs and dilution of benefits through the irresponsible actions of their competitors.

10. High-value export agriculture (fruits, vegetable and shrimp farming), the fastest growing subsector of Thai agriculture with bright future growth prospects, is being constrained by poor water control, waterlogging, insecure land ownership, polluted water (high cadmium levels), inadequate access to competitive cost credit and vulnerability to environmental disasters. The failure to price irrigation water results in inefficient water use and waterlogging and at the same time deprives the Royal Irrigation Department of the funds necessary for maintaining the system and improving water control. With poor water control, increased use of pesticides and chemical fertilizers (encouraged partly by subsidies) is a growing source of downstream water pollution that ultimately affects the urban, industrial and tourist sectors.
11. Biologically rich forests, of high commercial value today, and of potential value to industry, tourism, export agriculture, quality of life and environmental stability essential to sustained economic growth, are wastefully used or simply destroyed, imposing major burdens on the economy. Related is the increasing vulnerability to natural and environmental disasters such as landslides, floods and typhoons arising from reduced resilience of coastal and mountainous areas and the location of increasing wealth and infrastructure in vulnerable areas. Again the failure to establish secure property rights, and full cost pricing that both accounts for increasing scarcity and internalizes externalities is an outright subsidy for environmental degradation.
12. The environmental constraints to growth are inextricably intertwined with the social and physical infrastructure constraints, and both are related to the failure to establish and enforce full-cost pricing that would both encourage efficient use and make resources more available for expanding supply. The failure to fully price water and to charge for waste disposal/treatment result in excessive water use and water shortage as well as excessive wastewater and inadequate funds for sewage and waste collection/treatment systems. These constraints are largely the consequence of self imposed policies which still restrict market choice and public participation. State enterprises exercise monopoly control over the provision of public infrastructure, yet poor cost recovery, inappropriate subsidies and limited access to capital preclude needed expansion.
13. The environmental constraints are also intertwined with the structural imbalances and growing income disparities. The remarkable structural change in GDP is not matched by commensurate structural change in employment. Conservatively and with due allowances for off-farm employment, over 50% of the labor force is still engaged in and depends on agriculture which produces only 15% of GDP. While such imbalance and the implied inequality is typical of this stage of development, the magnitude of this imbalance is unprecedented and poses a threat to both the environment and sociopolitical stability. Simply put, underemployed rural poor

encroach on forest reserves or squat in urban slums contributing to environmental degradation. It is our assessment that policy distortions and institutional constraints are largely responsible for this imbalance. Insecurity of land tenure, interest rate ceilings that dry up rural credit, capital subsidies and other investment incentives that promote capital intensity, and lagging secondary education constrain agricultural productivity, labor mobility and industrial employment, and thereby prevent a large part of the population from benefiting from Thailand's remarkable economic growth. Failure to redress this imbalance and its environmental consequences may gradually erode public support for continued rapid economic growth.

14. Untackled environmental problems could constrain economic growth in many different ways. Industrial output and productivity could be lost to disruptions caused by shortages of water and energy, bottlenecks in infrastructure and damage to economic assets from environmental disasters. Foreign investors could be discouraged by rising costs of operation and falling quality of life. Economic growth could be slowed down by costly second-best mitigation responses (e.g. sound-proofing, bottled water, relocation, etc.) or by overly restrictive government regulations in response to crisis or public pressures. Failure to effectively control industrial pollution may give Thailand the reputation of a pollution haven which may lead to protectionist pressures against Thailand from US and European labor and industrial lobbies. Growing industrial pollution, increasing urban congestion, degradation of the natural environment by uncontrolled tourism and deteriorating quality of life amidst rapid growth may lead to a backlash and erosion of public support for open markets and continued economic growth.

OBSTACLES TO OVERCOMING ENVIRONMENTAL CONSTRAINTS

15. The effective resolution of environmental constraints to sustainable economic growth faces serious obstacles: (a) limited public awareness of the impacts and potential alternatives to current conditions and policies; (b) limited information on the causes and consequences of environmental problems; (c) inadequate expertise on environmental policy analysis, impact and risk assessment, environmental law and economics, etc.; (d) inadequate legal and institutional framework; (e) lack of enforcement of existing regulations and nominal penalties for violation; (f) the limited role of markets and inadequate involvement of the private sector; and (g) limited financial resources because of poor cost recovery.

U.S. NATIONAL INTEREST

16. The US has both a comparative advantage and a national interest in helping Thailand remove these obstacles and improve environmental management. The US industry and consulting firms are recognized leaders in environmental resource management and pollution control

services and products. The US environmental legislation and EPA's technical guidelines are used as blueprints worldwide including Thailand. The US PVO/NGO public interest groups have been uniquely successful in raising environmental awareness and elevating the environment to a national political issue. The US based education, and training institutions have been world leaders in providing education and training in environmental and policy sciences to developing countries.

17. The US has a national interest that coincides with Thai interests in helping Thailand address effectively and efficiently its emerging environmental constraints to sustainable growth. The US and Thailand share a mutual interest in continued expansion of investment and trade and in avoiding protectionist pressures in the US resulting from the creation of a pollution haven in Thailand. Thailand can benefit from the long American experience in pollution control and the US can expand the market for US goods and services in the pollution control industry. It is conservatively estimated, that Thailand will have a 3-5 billion dollar market for pollution control and services over the next five years just counting new installations and requirements under existing laws. Increased public involvement in environmental issues provides an effective vehicle to promote more open society and democratic pluralism. Close cooperation with important environmental shareholders in Thailand provides opportunities for policy dialogue on global environmental issues such as global warming, ozone depletion and biological diversity for which the US public and congress have expressed a strong and growing interest.

USAID ENVIRONMENTAL PROGRAM

18. A USAID environmental program that focuses on environmental constraints to key growth sector and advances mutual US-Thai interests must have the following components:
 - (a) an industrial-urban-tourism component that focuses on inefficiencies in water, land and energy use and associated water, land and air pollution problems as they affect economic growth. It is recommended that this sectoral component focus on implementation issues in the Greater Bangkok area and the satellite cities extending to the Eastern Seaboard and including the tourist resort of Pattaya, because of the heavy concentration of economic activity and associated environmental problems in these areas. As a second priority, the growing environmental problems of the urban and tourist centers of Chiang Mai, Korat, Haad Yai and Phuket warrant attention (see figures 2, 3 and 4).
 - (b) a policy analysis and dialogue component that focuses on macropolicy (both economic and environmental) that affects the allocation and efficient use of natural resources and the environment as they relate to economic growth. The critical

issues within the policy component are the aforementioned sectoral environmental issues from a macropolicy perspective plus broader issues that impinge upon them or are too diffused for a sectoral focus yet critical to economic growth such as forest policy, high value export agriculture, nature-based tourism and environmental disasters (see figures 2 & 3).

- (c) a small but strategic global environment component focused on Thai biological diversity and global warming with threads that tie in with energy efficiency, nature based-tourism, the pharmaceutical industry, high-value export agriculture, and forest policy. These issues have a strong constituency in the US and a growing advocacy in Thailand that makes them critical to enlisting the support of environmental NGO's for the industrial-urban-tourist and policy components of the recommended USAID environmental program for Thailand (see figure 2). The critical issues of forest encroachment and loss of biological diversity could be strategically addressed within the policy and global environment components. Moreover, given the limited resources of USAID/ANE for this issue and the relative significance of these problems far and beyond their effect on short term US-Thai economic interests, other USAID bureaus, particularly the S&T, as well as other donors could be leveraged to work in this area.

19. It appears that there is little room for separate rural, agricultural, and coastal resource components in a limited environmental program for Thailand that focuses on critical constraints to economic growth. This is so, partly because these three sectors are too diffused and complex to reshape through micromanagement and partly because the engine of growth has shifted away from these sectors towards urban-industry and tourist centers due to structural change.^{1/} This is not to be construed as a recommendation that Thailand shift resources from rural/agricultural to urban/industrial areas. Rather, the team recommends a focus on policy change which will reduce subsidization of the urban areas by the rural areas and enable the urban areas to more effectively finance the needed urban environmental infrastructure. Furthermore, the team strongly advocates policy reform leading to increased agriculture productivity and off-farm employment that will enable the rural population to share more effectively in the benefits from urban and industrial development. Not only do all three sectoral components have elements relating to coastal, rural, and biological

^{1/} While much of the urban, industrial and tourist activity is concentrated in the coastal area, a separate coastal resource component would be enormously complex because of the many agencies involved and the lack of clear authority. Coastal environmental problems can best (though not ideally) be handled within the urban-industrial-tourist component.

91

resources (see figure 3), but there is also an increased emphasis on the policy component which, in our assessment, provides a more strategic position from which to address such problems in a cost effective and catalytic way.

20. Critical to the success of such an environmental program is expanded environmental awareness and local participation that makes environmental issues part of the national debate, and the political agenda and enhances people's voice and choice in resolving them. Here we see a crucial role for NGO activity and for a better informed parliament, perhaps through an institution similar to the Congressional Research Service in the US. Critical to the proposed program are also enhanced analytical and technical skills to deal with complex environmental issues. We feel, however, that support for NGO activity, for a parliamentary Research Service and for human resource development would be more cost-effectively provided through Mission-wide Programs that address other issues in addition to the environment. Yet, within such programs it is essential to have environmental earmarks, at least for the first few years, because the environment is a nascent concern that needs to be fostered. These cross-cutting themes of awareness and human resource development as well as that of policy ought to focus on broader environmental issues as they relate to economic growth than the sectoral component which will also have substantial policy, short term training and NGO inputs.
21. Within this limited environmental program we see considerable scope for the growth of democratic pluralism, for enhancement of the role of the private sector and advancement of Thai-US mutual interests. We see an expanded role for NGO's, elected municipal councils, industry groups, parliamentary committees, and academic institutions as critical to the success of the program. The private sector has a key role to play in the provision of environment related infrastructure (water supply and water treatment, solid waste disposal, sewage system, reforestation, etc) and in self-regulation and self-enforcement, given an appropriate institutional framework. Mutual interests are being served by comparable pollution standards, technical assistance, training, market for US goods and services in pollution control, expanded trade and investment opportunities.

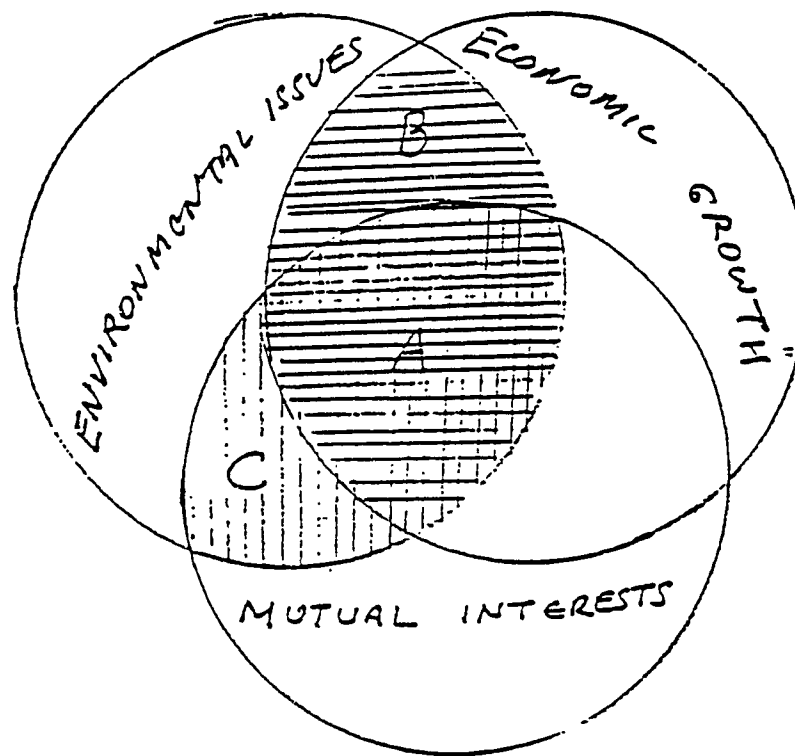


Figure 1 : Applying Economic Growth and Mutual Interest Screens to Environmental Issues

- A. "Economic growth and mutual interests"-focussed environmental issues
- B. "Economic growth only"-focussed environmental issues
- C. "Mutual interests only"-focussed environmental issues

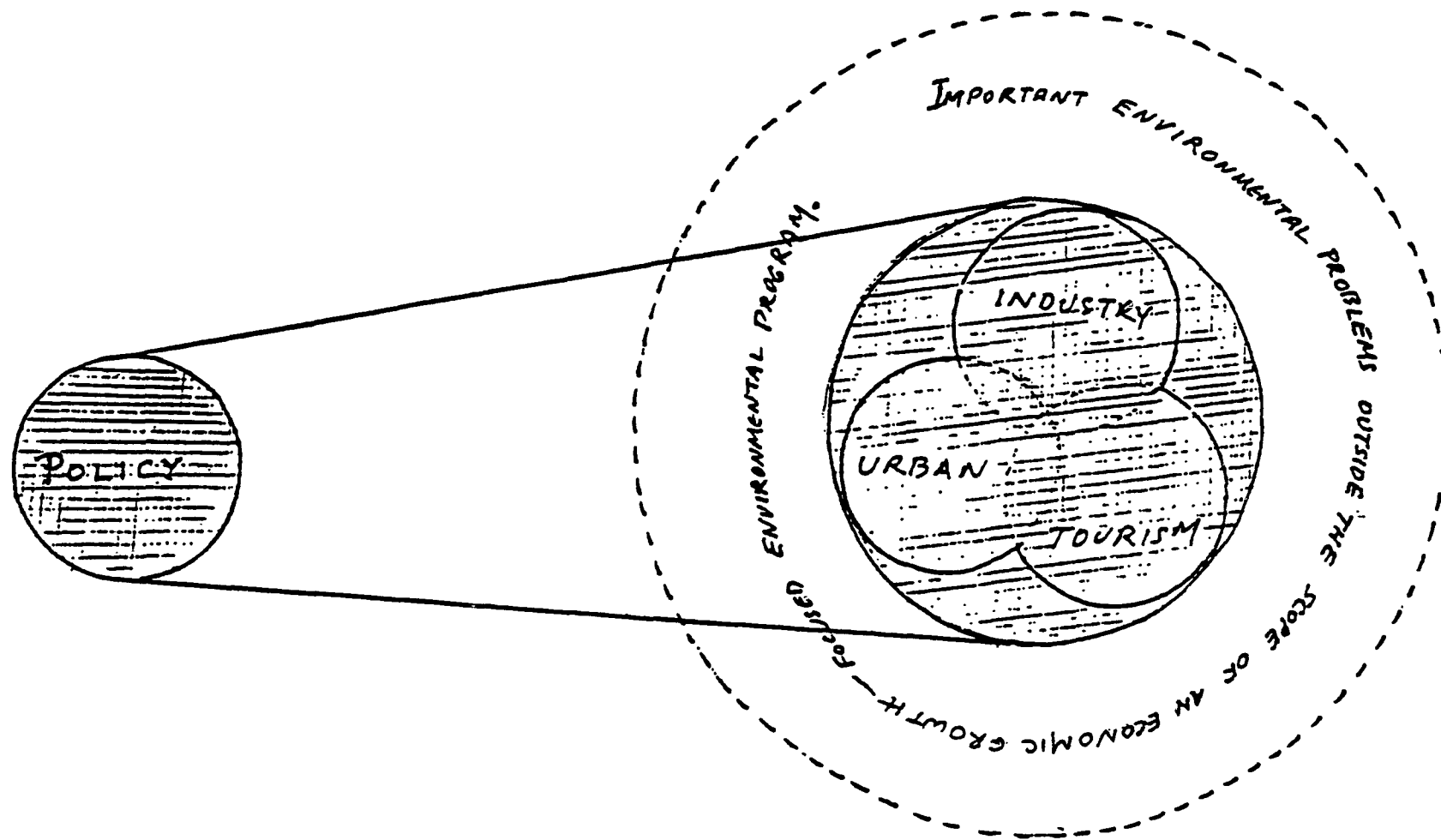


Figure 2 An Economic Growth-Focussed Environmental Program for Thailand as an Advanced Developing Country (Areas A & B in Figure 1).

Legend

1. High-value export agriculture and agroprocessing
2. Nature-based tourism and pharmaceuticals
3. Coastal environment important to tourism and vulnerable coastal growth areas
4. Global environmental component focussed on biological diversity and global warming (Area C in Figure 1)

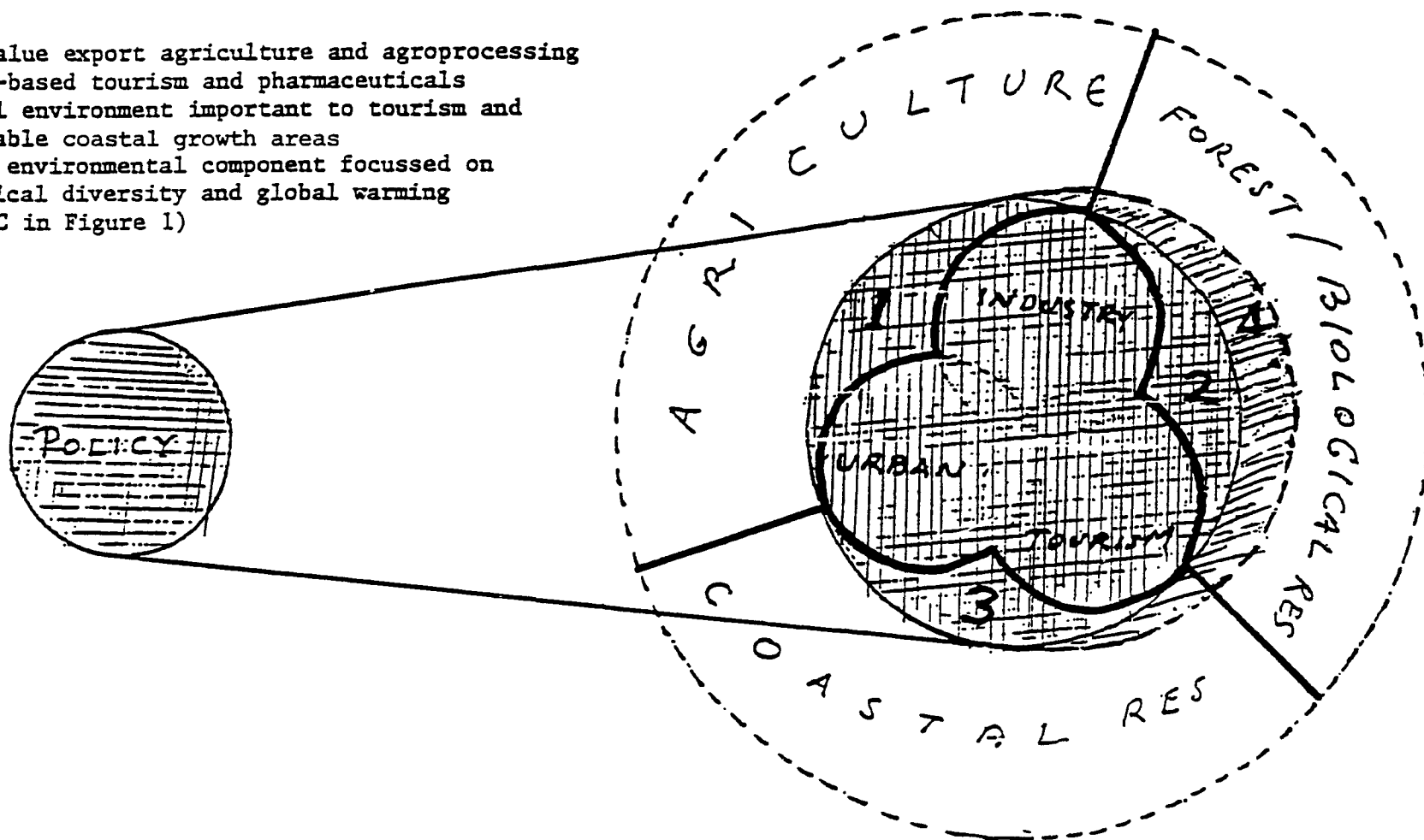


Figure 3 An Economic Growth/Mutual Interests-Focussed Environmental Program for Thailand as an Advanced Developing Country (Areas A, B & C in Figure 1).

Environmental Issues for Thailand as an Advanced Developing Country : Sectoral Component

		W A T E R : L A N D : E N E R G Y :							
		Inefficient water use	Water pollution	Land subs. flood dam.	Solid/ toxic waste	Inefficient land use	Traffic congestion	Air/noise pollution	Inefficient energy use
I N D U S T R Y	Satellite Cities (of S.Pr. ESG)	A	A	-	A	A	C	B	A
	Bangkok	A	A	A	A	A	A	A	A
U R B A N	Munici- palities	A	C	-	B	A	C	C	C
	Chiang- Mai	A	B	-	B	A	B	B	B
T O U R I S M	Pattaya	A	A	-	A	A	B	B	B
	Phuket	A	A	-	B	A	C	C	B

A : first priority
B : second priority
C : third priority

Annex D-IV

**USAID/THAILAND
AMP RESEARCH AGENDA**

**PRIVATE SECTOR PARTICIPATION IN THE
DEVELOPMENT OF THAILAND'S INFRASTRUCTURE AND
UTILITIES**

**Prepared by
CENTER FOR PRIVATIZATION**

MARCH 1990

EXECUTIVE SUMMARY

**PRIVATE SECTOR PARTICIPATION IN THE DEVELOPMENT OF THAILAND'S
INFRASTRUCTURE AND UTILITIES**

This project is the first of a two phased effort. The required output is a report that identifies and provides the rationale for the selection of two or three infrastructure and utilities sectors/areas with the greatest potential for future USAID program activities and U.S. private sector involvement. Phase II will provide detailed assessments of the selected areas including a menu of recommended program activities.

USAID/T engaged the Center for Privatization to review the opportunities and constraints affecting USAID/T assisting the RTG meet its current and future infrastructure needs. The study was undertaken by a team of three consultants: two expatriate and one local. Project work began late-January with briefings at USAID/Washington and the Center for Privatization, followed by field work in Bangkok, February 12-March 9, 1990. This report summarizes the team's findings, observations, and recommendations for program development.

MAJOR FINDINGS

The study encompassed a review of Thai infrastructure and utilities development to determine those sectors critical to sustaining Thailand's current growth path and assessing those areas where USAID/Thailand might focus its future program efforts. The review included an examination of RTG infrastructure priorities, RTG views on opportunities for the expanded use of the private sector in the development of Thai infrastructure and utilities, constraints to private sector involvement, future directions of RTG infrastructure development, and promising areas for USAID/Thailand development assistance. The team's major findings follow.

RTG Infrastructure Priorities

Thailand's Sixth National Economic and Social Development Plan (1987-1991), calls for the continuation of developing infrastructure services as a national priority. Infrastructure development is viewed as key to increasing national income and employment. Infrastructure and utilities account for more than 50% of the total government investment. Public utilities and amenities, energy, transport and communications are

cited as vital to future RTG economic growth and development. Land transport and telecommunications are said to be serious problems both in terms of quality and quantity. These areas are likely to carry over into the Seventh Plan.

Government program priorities as stated in the Sixth Plan and unpublished and undated report, "Guidelines for Increasing the Role of the Private Sector in the Development of State Enterprise", include: decentralization of prosperity to provincial areas; redefinition of pricing structures for services; expansion of private sector involvement and investments; opening competition and establishing free markets; legal and administrative reforms; and, expansion of capital markets. Given recent current events, one must question whether the government possesses the political will to substantially increase the role of the private sector in the development of state-owned enterprise.

Team's Definition of Privatization

While privatization may take many forms, for purposes of this project, privatization is defined as the process of enhancing private sector roles in the ownership and control of government entities and activities. Privatization can be brought about by the direct transfer of assets from the public to the private sector, but also by a variety of other means, such as by relaxing monopolistic restrictions -- liberalization and deregulation, commercialization, policy reform, liquidation, partial divestiture, leasing, contracting, franchising and allowing the private sector to provide services that had previously been provided only by government agencies.

Need to Open Markets in Thailand

One approach to promoting effective economic development in Thailand is to open markets and to increase opportunities for the involvement of the private sector in the development of infrastructure sectors. The team believes that the provision of appropriate public services by the private sector can play an important role in opening up Thai society, freeing up markets and allowing the many to enjoy benefits now confined to the few.

Areas of Infrastructure Most Critical to Thailand Growth

While each sector/area of infrastructure and utilities is important to Thailand's future growth and development and in sustaining its current patterns of economic growth, four areas appear to be most critical: power, telecommunications, transportation, and utilities.

Of the many RTG officials interviewed, none provided any specific program suggestions when queried about the kind of assistance they would like to see provided by USAID/Thailand. A few suggested that USAID/Thailand should position itself to respond to future technical assistance requirements that may surface as the RTG sorts through its problems and identifies specific assistance needs.

RTG Attitudes About Private Sector Involvement

The RTG appears to have a desire to expand the involvement of the private sector and possibly engage in some aspects of privatization in expanding Thai infrastructure, but it lacks the political will to move firmly in that direction. This is also a barrier to USAID and U.S. involvement in the development of Thailand's infrastructure.

PRIVATE SECTOR ROLES IN INFRASTRUCTURE AND UTILITIES DEVELOPMENT

Power

Power generation and transmission in Thailand is dominated by the Electricity Generating Authority of Thailand (EGAT), which operates 180 power facilities in Thailand. Other generators exist on private facilities, but the sale of surplus power is officially prohibited.

EGAT officials declare that they are interested in having the private sector finance their activities, but show no urgency to bring this about. EGAT unions have come out strongly against privatization, and have received assurances from the Prime Minister that existing facilities will stay in the public sector.

In the short term, the prospects for the private sector may be stronger in areas in which EGAT is not interested or lacks the wherewithal to respond to market demands.

Telecommunications

Telecommunication services in Thailand are provided by two governmental monopolies: The Telephone Organization of Thailand (TOT) supplies local services, and the Communications Authority of Thailand (CAT) supplies long distance and international services.

Another team of consultants financed by USAID are recommending that TOT and CAT be combined to form one monopolistic, regulated, private company, which would not be required to subsidize postal services. The team believes that other approaches should also be considered. USAID could be particularly helpful in advising on the possibilities of a network that would allow for competition where appropriate on technical and economic grounds.

Transportation

Buses. Thailand's main problem with buses is in Bangkok, where the RTG, acting on the advice of European consultants, nationalized the buses in 1976, to form the Bangkok Metropolitan Transportation Authority (BMTA). BMTA has been a persistent money loser since its inception, and its liabilities now exceed its assets by the equivalent of over US \$300 million.

As satisfactory bus services are provided without subsidy in Chiang Mai and many other cities around the world, e.g. Buenos Aires, Hong Kong, Istanbul, Manila, and as they were provided in Bangkok without subsidy at low fares prior to the formation of the BMTA, buses are clearly a strong candidate for early privatization.

Whether privatization should be accomplished by selling buses back to their previous owners; giving them to their crews; selling them to other operators; or by a combination of these and other methods; is a question that merits early study.

Railways. The State Railway of Thailand (SRT) carries less than 10% of Thailand's passenger and freight traffic. Its share of traffic is declining and in the current year SRT expects expenditures to exceed revenues by Baht 905 million (US \$36 million).

The straightforward way to deal with SRT is to privatize it completely, and to allow its managers to run at a profit those services that are viable, and to close down those that are not. If SRT seeks management expertise, USAID could be helpful in introducing the services of suitable U.S. consultants. However, slimming down a railway is a thankless task in any country, and USAID should not get involved except in response to a request from the highest levels.

Roads. Problems of the highway sector in Thailand, especially in Bangkok, are not due to lack of funds, nor of skills, but to the unwillingness of the authorities in Thailand to treat roads as the valuable economic assets that they are. If there were in place clear administrative and pricing guidelines that did not discriminate against the private sector, there could be a significant role for the private provision of roads.

In view of the US interest in this topic, USAID is well placed to finance the necessary studies if requested by the RTG. However, as key recommendations made by previous studies are yet to be acted on, it is difficult to recommend this as a promising sector for a USAID initiative.

Ports (Sea). Thailand's main port of Bangkok is now operating at its full capacity of 650,000 TEUs (20-foot Container Equivalent Units) per year. Additional capacity is urgently needed and is to be found at the existing ports of Sattahip, Phuket, Songkhla, Map Ta Pud and the private wharves in the vicinity of Bangkok. The first four berths of the new port of Laem Chabang (ultimate capacity 22 berths) are to be opened in 1991.

The RTG has decided that the private sector should finance additional port capacity and operate new ports, including Laem Chabang. The Port Authority of Thailand opposes this action, as do the port-workers unions. Nevertheless, there is an urgent need and an opportunity for private sector involvement is within the realm of possibility.

107

Ports (Air). Bangkok International Airport (BIA) is operated by the Airport Authority of Thailand. Some services there are already contracted out to the private sector. The contracting out of other services, and even of the complete management, at BIA and other airports (e.g. Phuket and Krabi) would be beneficial, but would not have a substantial effect on development.

Aviation. The privatization of Thai Airways International (THAI) would be desirable if done in a way that would promote Thai share ownership. Even more desirable would be the deregulation of aviation in Thailand to allow the competitive provision of passenger and cargo service, by helicopter or conventional aircraft.

Utilities

Water Supply. Water is supplied by public agencies in Bangkok and (under the umbrella of the Provincial Waterworks Authority) in many other areas, some of which are not satisfied with present arrangements. There is scope here for services to be contracted out to private firms, and USAID could have a role in identifying opportunities and arranging for pilot projects to be undertaken by experienced US firms.

Drainage, Sewerage and Solid Waste Disposal. The opportunities in drainage, sewerage and solid waste disposal are probably greater than in water supply, because these sectors have been neglected by the authorities, especially outside Bangkok. USAID could play a useful role in these sectors, which also have important environmental aspects.

ANALYTICAL FRAMEWORK FOR THE SELECTION OF KEY AREAS OF DEVELOPMENT

To help USAID/Thailand select infrastructure and utility sectors for future development assistance, the team used the following six criteria. The first five were in the project Scope of Work; the sixth was added for the reasons given in the Introduction:

- i. The impact of privatization on the growth of the Thai economy;
- ii. The prospects for early impact on the RTG;
- iii. Potential for expansion of US private investment;
- iv. Prospects for cooperation with multilateral donors;
- v. Availability of local capital; and
- vi. Impact on the diffusion of political power.

The team ranked the relevant infrastructure and utility sectors against these criteria in accordance with the following scale of effects: 0 = nil, or no importance; 1 = minor importance; 2 = moderate importance; 3 = substantial importance; and, 4 = exceptional importance. The results, by sector and criterion, are shown in the matrix attached hereto.

Selection of Promising Areas of Infrastructure and Utilities for U.S. Involvement

In applying the criteria to the selection of promising areas for USAID development assistance and U.S. private sector involvement, the team regarded the first two criteria - effects on economic growth and prospects for early action, as critical, and excluded any activity that did not score at least 2 in either of them.

The areas selected as most promising for U.S. involvement on a small scale are: water supply and sewerage; transportation: bus systems; and, development of electricity co-generation and telecommunications systems.

Reactive Program

In view of the recent public confrontations in Thailand between the proponents and opponents of privatization, USAID should follow as a model the successful approach it used in developing the housing sector. The Mission should offer low profile interventions in key sectors, in both Bangkok and provincial urban areas. USAID's strategy should be reactive: responding to targets of opportunity as they arise with focused technical assistance.

Public Awareness

Helping the Thais appreciate that expanded involvement of the private sector and/or privatization need not, indeed should not, be a means of enriching a selected few at the expense of the many should be an important part of USAID/Thailand's development strategy. USAID/Thailand should assist the RTG, possibly through a third party, develop and carry out a broad-based, public awareness program directed at reaching all segments of Thai society.

PHASE II WORKPLAN

Tasks and activities undertaken in Phase II should be directed at mobilizing Thai and U.S. private sector resources in the provision of infrastructure and utility services in Thailand. USAID/Thailand should:

1. Continue its overall policy dialogue activities with the RTG and program coordination with other donors to maximize policy dialogue results;
2. Sponsor activities to strengthen private sector organizations such as Chambers of Commerce, Federation of Thai Industries, and Thai/U.S. Bank Associations;
3. Support Thai public and private sector efforts to inform and educate the general public about the advantages of private sector involvement in the development of infrastructure sectors and utilities;

104

4. Assist ministries, departments, regional/provincial governments, and municipalities prepare pertinent studies, review and redraft laws, acts, regulations, etc., that have an impact on infrastructure development, especially those discriminating against private provision of services;
5. Assist in activities necessary to promote greater mobilization of domestic and international capital in Thailand; and,
6. Support the decentralization of government authority and empowerment of Thai consumers.

Table 1.
Infrastructure Selection Criteria

Infrastructure										
Sector Criterion	Electric Power	Telecon	Railroads	Roads	Ports	Transport	Utilities			
	lg sm	lg sm	Bgk oth	Bgk oth	Sea Air	Bus Air	Water	Sewerage	Solid Waste	
Impact on Thai Growth	1 3	4 4	1 1	3 2	3 1	3 3	2	2	1	
Prospects for Action Before 1992	2 3	1 2	2 2	1 1	4 2	3 2	3	3	3	
Potential for Expanded U.S. Investment	3 3	3 3	1 1	2 2	2 2	0 3	3	3	2	
Prospects for Coop- eration with IFC, etc.	2 2	2 2	0 0	2 1	2 1	0 1	2	2	2	
Availability of Local Capital	2 3	2 3	1 1	3 3	3 2	4 2	3	3	3	
Impact on Diffusion of Political Power	3 4	3 4	0 0	2 2	4 3	3 3	3	3	2	

Ranking Codes: 0 = nil, 1 = minor, 2 = some, 3 = substantial, 4 = exceptional

Annex D-V

**USAID/THAILAND
AMP RESEARCH AGENDA**

**PRIVATE PARTICIPATION IN DEVELOPMENT OF
LABOR FORCE SKILLS**

**Prepared by
ERNST AND YOUNG**

**Funded under the
PRIVATE ENTERPRISE DEVELOPMENT
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THE BUREAU FOR PRIVATE ENTERPRISE**

MARCH 1990

EXECUTIVE SUMMARY

PRIVATE PARTICIPATION IN DEVELOPMENT OF LABOR FORCE SKILLS

I. INTRODUCTION

Over the past decade, Thailand has earned the reputation as one of the fastest growing economies in the world. With economic growth averaging over 7.0% since 1981 and reaching double digits during the past two years, the country is well on its way toward NIC status. Most experts predict that Thailand's strong performance will continue; estimates of real annual GDP growth rates for the next five years range from 7% to 9%. With the influx of foreign investment, manufactured exports have taken on an increasingly important role in the economy.

Strong overall expansion, combined with dramatic shifts in the economy, have resulted in substantial strains on the country's human resource base. An abundant supply of cheap and easily trained labor was an important component of Thailand's comparative advantage in the past. However, as the industrial structure shifts into more technology-intensive sectors, the need for a well-trained stock of technical and managerial personnel becomes more evident.

II. STATEMENT OF THE PROBLEM

The key problem is that Thailand's educational and training structure has been unable to keep pace with the changing demands of the economy. As a result, serious gaps have evolved between the needs of the private sector and the output of Thai educational and training institutions.

The status of human resource development in Thailand is summarized in the following data:

- The share of the employed population with elementary or less education is 86%; with secondary or vocational, 9%; teacher training, 2%; and university education, less than 3%.
- Thailand has almost universal enrollment in primary schools; its adult literacy rate is one of the best in the region.

- Only 1/3 of the children that finish primary school proceed to secondary school. Thailand lags far behind other countries in the region; the gross secondary enrollment ratio in Thailand is 30% vs. 95% in South Korea, 91% in Taiwan, 71% in Singapore, 69% in Hong Kong, 68% in the Philippines, 53% in Malaysia, and 39% in Indonesia.
- Enrollment ratios have increased dramatically at the tertiary level, due primarily to the establishment of two open universities; some of the growth can also be attributed to the expansion of the private universities and colleges.

III. ANALYSIS OF THE PROBLEM: GAPS IN LABOR FORCE SKILLS DEVELOPMENT

Rapid growth in the Thai economy has resulted in widespread shortages across a range of labor skills. The issue of manpower shortages is of mounting concern to the business community. As their needs for skilled personnel continue to grow, companies are finding it increasingly difficult to fill key technical and managerial positions. The most significant gaps are found in the following areas:

- Engineering: The shortage of engineers is the most critical human resource constraint facing the private sector. Shortages of science and technology personnel are expected to continue at the post-graduate level throughout the Seventh Plan period. Shortages at the bachelor degree level are expected to improve significantly in electronics technology, metallurgy, civil engineering and other related fields. However, the education sector will be unable to meet the demand for graduates in the key areas of mechanical, chemical and industrial engineering.
- Management: Businesspersons consider shortages in management quite important; many companies experience annual turnover rates in excess of 25% at the managerial/supervisor level. Major shortages are found in finance, marketing, materials management and human resource personnel.
- Technical/Skilled Labor: Many companies report significant shortages of technicians and other skilled workers. While the shortages in engineering and management are primarily quantity related, companies view the shortage of skilled labor as quality related. Vocational graduates often lack the know-how and training to operate in a productive environment.
- English-Language Skills: English language deficiencies are the most important quality-related factor affecting human resource utilization in the private sector. Firms view English communication skills as critical since the Thai economy is heavily dependent on international markets for inputs and exports. It is also a barrier to training and technology transfer.

The Thai educational and training system has been slow to respond to the changing needs of the labor market; hence, a widening gap has emerged between the needs of the private sector and the outputs of the educational system. Traditionally geared toward preparation for civil service, the Thai educational system continues to produce a surplus of graduates in the humanities, social and political sciences, while there remains a shortage of graduates in engineering and other technical and scientific disciplines.

Private higher education has been expanding rapidly in Thailand and will play a larger role in the future in meeting the needs of the private sector. For example, private higher education is being called upon to take the lead in addressing the critical shortages of engineers. Nonetheless, private and public education face several key constraints in addressing private sector needs:

- **Quantity and Quality of Faculty:** Given the critical shortages of engineers and managers, faculty are being increasingly recruited by the private sector which can offer more attractive compensation; hence, higher education has been unable to recruit and retain its engineering and management faculty. The issue with respect to engineering faculty is one of quantity; lack of faculty is a serious constraint to resolving the shortage of engineers. In contrast, the most critical issue facing programs in management is the quality of faculty; a disproportionate number of teaching staff hold only bachelor's degree and lack experience in business.
- **Relevance of the Curriculum:** The curriculum of most degree and vocational education programs is geared toward theory, as opposed to practice. To meet private sector needs, a greater emphasis must be placed on applied learning and professional development.
- **Pedagogical skills:** There is a general lack of pedagogical skills in the Thai educational system. Lecture, as opposed to more interactive methods, is the most common approach. More innovative pedagogical tools would improve the effectiveness of education and training efforts.

The most important avenues for addressing labor skills constraints involve (i) increasing the level of collaboration between the private sector and educational and training institutions, and (ii) increasing the level of collaboration between U.S. education and Thai educational programs. There are already several model approaches to such collaboration in Thailand. Most notably, the electronics industry and King Mongkut Institute of Technology, Ladkrabang, have worked together to design tailored educational programs. The Sasin Program at Chulalongkorn University is widely recognized as a model of collaboration with U.S. universities (the Kellogg School at Northwestern University and the Wharton School at University of Pennsylvania). These are the types of initiatives upon which the USAID/Thailand strategy should build.

IV. A USAID STRATEGY FOR LABOR FORCE SKILLS DEVELOPMENT

The central goal of the proposed strategy for labor force skills development is:

To serve as a catalyst and facilitator to bridge the gap between the needs of the private sector and the output of Thai educational and training institutions.

The overriding labor skills problem in Thailand is the inability of the educational and training system to keep up with changes in private sector demand. The unmet demands of the private sector are deep, and clearly, USAID cannot and should not tackle the problem alone. Its most effective role will be to serve as a catalyst and a facilitator for the adoption of solutions to bridge the gap -- solutions which are in the long-run interest of business and educational and training institutions to sustain. To focus the Mission's resources on activities which meet this goal, we propose the following criteria:

Criteria:

1. Programs must have the active support and involvement of the private sector; the willingness of the private sector to be involved should serve as a "filter" to determine whether an activity is commercially viable and sustainable.
2. Programs should involve existing institutions and facilities with a view toward improving the quality and/or quantity of their output.
3. Programs should be based on models (both local and foreign) which have a proven track record of success.
4. Programs should focus on, but not be limited to, addressing gaps in engineering/technology, management, and human resource development.
5. Programs should impose minimal management burden on USAID.

This strategy proposes a number of interventions to support three objectives. However, it is important to recognize that these objectives are not mutually exclusive, and the proposed interventions can and should be combined to meet multiple objectives. USAID's overall program objectives, as outlined in its AMP, are illustrated by three over-lapping circles, with each circle representing one of the central themes of the Mission's strategy: mutual interests, open markets, and open societies. Similarly, the objectives of the human resource strategy should be viewed as over-lapping circles, with each circle representing an objective of the strategy. Priorities for funding should ultimately be driven by private sector demand.

- 116 -

Objective 1: Foster the development of mutually-beneficial partnerships between business and educational institutions to address labor force needs.

Interventions:

1. Support Thai industry collaboration with educational and training institutions to design and implement sector-specific programs. A successful example is the collaboration between the King Mongkut Institute of Technology, Ladkrabang, and a group of electronics sector firms in the design of a sector-specific educational program.
2. Encourage exchange of information and human resources between Thai industry and educational training institutions.
 - Faculty sabbaticals in industry to increase "real world" business experience.
 - Use of Thai and U.S. business-people as university lecturers or adjunct faculty.
3. Encourage the active involvement of business in policy-making boards of educational/training institutions. The Milwaukee School of Engineering may serve as a model; its "pro-business" approach is founded on the participation of business leaders in board meetings and special committees. Academic programs are strengthened through Industrial Advisory Committees.
4. Support private sector collaboration with educational and training institutions to develop continuing education programs. The aim would be to up-grade management and technical skills.
5. Examine feasibility of the use of "distance education" using high-technology educational techniques to up-grade skills within firms and within educational and training institutions.

Objective 2: Foster linkages to apply U.S. expertise in education and training to the resolution of Thai labor force gaps.

Interventions:

1. Support the creation/facilitation of "joint-ventures" between U.S. higher education and Thai higher education. The Sasin Model, in which Chulalongkorn University, the Kellogg School of Northwestern University and the Wharton School of the University of Pennsylvania have collaborated in the development of business management programs, could be applied to the development of engineering, technology, and human resource development programs.

107

2. Provide start-up funding for the creation of placement and career development services for Thai students in the United States. This might be accomplished in collaboration with U.S. businesses with interests in Thailand.
 3. Promote the use of U.S. private sector/training expertise in human resource development and training methodologies to strengthen in-company training programs:
 - Train HDR managers in firms to design and implement training programs;
 - Develop training of trainers programs.
 4. Support creation/facilitation of U.S.-Thai faculty exchange programs.
 - U.S. professors in Thai universities would address the immediate need for faculty in key areas.
 - Placement or scholarships for Thai faculty in U.S. universities would address the medium and long-term need to strengthen faculty.
 5. Encourage integration and use of English language in business and technical-oriented educational and training programs. Support curriculum development through U.S. technical expertise and the creation of language laboratories.
 6. Develop training programs to foster U.S.-Thai trade and investment.
 - Train potential investors in how to do business in Thailand.
 - Develop workshops to expose U.S. and Thai business persons to similarities and difference in their respective management and negotiating styles.
 7. Provide U.S. expertise from professional accrediting bodies to the Association of Private Colleges and Universities and the Rectors' Council; assist in establishing accrediting mechanisms and standards for university and college programs.
 8. Fund the Thailand-US Educational Foundation to facilitate professional exchanges between Thai academics and Americans who visit Thailand and the region.
 9. Provide U.S. expertise in educational administration to assist Thai institutions to: establish appropriate fees and financial planning mechanisms; conduct assessments of market needs; design and execute marketing plans; and other factors related to managing educational institutions as commercially-viable entities.
- 1/5

Objective 3: Support private sector efforts to influence policies affecting labor skills development.

Interventions:

1. Assist business/professional associations to identify, analyze and advocate changes affecting labor skills development.
2. Support the participation of professionals in a particular discipline on the accrediting bodies of private university and college programs.
3. Support collaboration between the private sector and Thai research institutes to examine labor skills issues and alternative approaches and models to address these issues.

V. FUNDING THE HRD PROGRAM

The proposed program would be funded from several projects. The most important projects would include the following. In rough order of priority:

- Thai Growth and Investment Fund (TGIF)
- Emerging Problems in Development II (EPD)
- Management of Natural Resources and Environment Support (MANRES)
- PVO Co-Financing
- Science and Technology Development
- Trade and Investment Support (TIS)

Annex D-VI

USAID/THAILAND
AMP RESEARCH AGENDA

FOSTERING DEMOCRATIC PLURALISM

Prepared by
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MARCH 1990

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EXECUTIVE SUMMARY

FOSTERING DEMOCRATIC PLURALISM

1. INTRODUCTION

Democratic participation in government decision making is an area of development increasingly recognized by A.I.D. as potentially critical for sustaining high rates of growth. Mission portfolios in the ANE region, including Thailand, have long included activities in this general area. But there is growing interest in taking a more strategic and programmatic approach to allocating these resources. Efforts in this area are coming to be treated by the ANE Bureau as a distinct development category under the term Democratic Pluralism Initiatives (DPI).

This paper outlines the findings and recommendations of a USAID team contracted to explore the utility and feasibility of building a Thailand DPI Program. Our approach has been to examine DPI- related issues specifically in terms of the mission's overall program goal of sustaining economic growth. Findings from this study suggest that a limited Thailand DPI Program could make significant contributions to sustaining growth through the 1990s. The proposed DPI Program builds on existing mission projects and personnel, but seeks to sharpen the focus of these resources on specific DPI objectives.

2. BACKGROUND

The team began with a background analysis of recent Thai development from a political economic and political institutional perspective. Results from this analysis suggest that a major, though generally underestimated, challenge to sustained growth through the 1990s will emerge due to a lag in development of participatory institutions. These institutions are of critical importance as the means for achieving a broad-based and sustainable national consensus on economic policies through the 1990s. The failure to significantly broaden access to decision making processes could lead to a deterioration in public confidence in democratic institutions, an increasing polarization in Thai society, and an erosion of current pro-growth policies.

Thailand now faces two major socio-political tasks:

- a. Strengthening elective representation as the best means for creating open consensus on key policy issues and for improving accountability in bureaucratic functions.

- b. Widening access to the political process to emerging components of society outside the current military, bureaucratic, and business elites.

The DPI Program proposed by the team supports Thai initiatives in addressing these two tasks.

3. CRITERIA FOR DPI ACTIVITY SELECTION

To assist the mission in focusing its scarce resources to achieve DPI objectives, we propose that specific organizations and activities assisted under a DPI Program meet the following criteria:

- a. Directly Addressing the Main Socio-Political Challenges to Sustained Growth: The single most important criterion for inclusion in the DPI Program is the relevance of potential activities to achieving the two major tasks noted above (i.e., strengthening elected representation and widening access to the political process).
- b. Avoiding Thai Sensitivities: The mission should avoid activities and approaches which the Thais (either RTG or political intellectuals) would consider overly politically intrusive. In particular USAID should avoid urging specific U.S. sectoral policy agendas through DPI activities.
- c. Focusing on Opportunities for Major Impact: The mission should concentrate its scarce resources on those sub-areas, organizations, and activities where USAID assistance is likely to make a major difference.
- d. Ensuring Sustainability without Dependence: The mission should avoid supporting DPI activities which are likely to require recurrent USAID funding over the medium to long term to sustain initial impacts. The best means for doing this is to focus USAID funding on catalyzing demand, new capabilities and linkages rather than on perfecting supply.
- e. Minimizing In-House Staff Costs: Special attention needs to be given to the design and selection of activities to minimize on-going USAID personnel cost (particularly Direct Hire). Strong preference should be given to activities which can be administered through intermediary organizations.

4. COMPONENTS OF THE PROPOSED THAILAND DPI PROGRAM

A mission DPI Program consisting of four major sub-areas is proposed (summarized in Attachment 1). Program Sub-areas with objectives and possible activities are as follows:

Sub-Area 1: Pluralizing Access through Strong Advocacy NGOs

Objective: To increase the ability of selected NGOs (a) to analyze issues and to assess and articulate the interests of their constituencies or the public at large and (b) to channel their concerns effectively and responsibly into government policy formation contexts.

Four activity "clusters" are proposed under this DPI sub-area:

- a. Strengthening Broadly Representative Business Organizations
- b. Addressing Labor Issues through Democratic Institutional Means
- c. Strengthening Public Advocacy Organizations
- d. Assisting NGOs to Develop Sustainable Income Sources

Sub-Area 2: Strengthening Elective Representation

Objective: To assist Thai elective bodies (national and local) to increase their ability to interact effectively with the executive branch in representing the interests of their constituencies.

In this area the mission should concentrate DPI resources on institution building and carefully avoid becoming entangled in partisan issues. Activities fall into two categories--one national and one local in focus:

- a. Assisting Development of Parliamentary Committee System
- b. Strengthening Municipal Councils

Sub-Area 3: Improving Local Government Responsiveness

Objective: To improve the ability of the local level executive branch bureaucracy to respond to local demands for problem resolution.

Two sets of activities are suggested:

- a. Municipal Financing
- b. Municipal Planning and Management

5. FUNDING THE DPI PROGRAM

The proposed Program would draw resources from several projects. The major funding sources would be as follows:

- a. PVO Co-Financing II \$ 4.5 million
 (Co-F1)
- b. Emerging Problems in 2.0 million
 Development II (EPD)

- | | |
|---------------------------------|------------|
| c. Regional 116e Human Rights | .5 million |
| d. Housing the Urban Poor (HUP) | .4 million |

(In the above senario, approximately \$1 million from the Regional Income and Employment (RIE) for business organization support would be reprogrammed through the PVO Co-Financing Project.)

Flexibilities already built into projects listed above could therefore provide roughly \$ 7.4 million from FY 90 through FY 93 for the proposed DPI Program.

6. DPI PROGRAM MANAGEMENT

The proposed DPI Program here is a framework for action, not a detailed blueprint. It is essential that USAID become actively engaged in defining the issues and managing DPI as an on-going, unified program. There are at least four reasons for this:

1. That DPI issues and the potential political sensitivities are complex. Ensuring that USAID's scarce funds remain targeted to address core DPI problems will require active and well-informed management.
2. The means for implementing DPI activities (i.e., intermediary organizations and multiple funding sources) involve a complex web which needs to be understood and actively and creatively managed from within the Mission (see Attachment 2).
3. Building up an in-house program on DPI with active contacts with Thai counterparts will have the side benefit of increasing mission access to up-to-date information and analysis on key socio-political developments in Thailand. Given growing USAID interest in policy issues of potentially high political significance (e.g., privatization, IPR, financial markets reform) such information could greatly improve the USAID program across the board.
4. Monitoring DPI and reporting to AID/W will be made much easier.

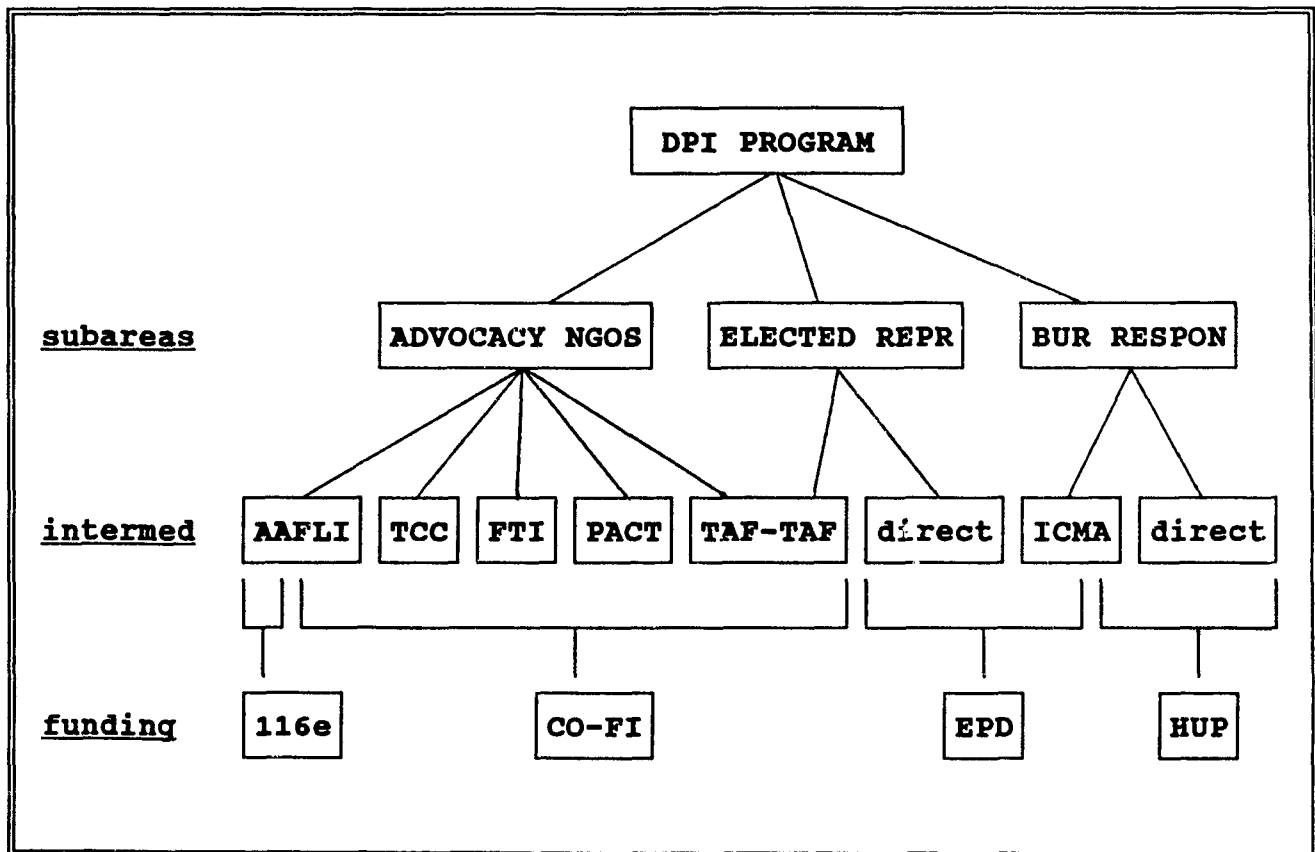
ATTACHMENT 1
PROPOSED USAID/THAILAND DPI PROGRAM

DPI SUB-AREA	ACTIVITY SET	ACTIVITY	POSSIBLE INTERMEDIARY	FUNDING SOURCE	POSSIBLE LEVEL FY90 - FY93	
					Low	High
1. PLURALIZING ACCESS THROUGH STRONG ADVOCACY NGOS	- Business	- strengthening Prov ChanCom	TCC	CoFi [or RIE]	200	300
		- strengthening TCC research unit	TCC	CoFi [or RIE]	100	300
		- strengthening prov FTI branches	FTI	CoFi [or RIE]	100	200
		- strengthening FTI research unit	FTI	CoFi [or RIE]	100	300
		- strengthening Prov JPPSCCs	TAF	CoFi [or RIE]	50	100
	- Labor	- unions democratic development	AAFLI	CoFi	0	150
				116e	200	500
	- Public Advocacy (incl. some Envir.)	- public demand gen.; coalision building; problem resolution	PACT	CoFi	400	1200
	- Improving NGO Domestic Income	- studies; public campaign	PACT [or NGO Coord]	CoFi	20	50
2. STRENGTHENING ELECTIVE REPRESENTATION	- Parliamentary Committees	- parliamentary research services	TAF	CoFi	200	500
		- studies thru parlia. committees	Parliament	EPD II	[not incl. here]	
	- Locally Elected Councils	- municipal councils development	TAF	CoFi	200	500
3. STRENGTHENING LOCAL GOVERNMENT RESPONSIVENESS	- Muni Finance	- increasing tax bases	ICMA and direct	HUP	100	200
				EPD II	250	1000
	- Muni Plan/Manage	- improving capacity and responsiveness	ICMA and direct	HUP	100	200
				EPD II	250	1000
TOTAL COST					2270	6500
CoFi					1370	3600 *
116e					200	500
EPD II					500	2000
HUP					200	400

* Leaves \$.9 million of the total planned amendment of \$4.5 million for a PSC contractor, evaluations, and unforeseen proposals.

125

Attachment 2: Network of DPI Objectives, Intermediaries, and Funding Sources



ATTACHMENT 3
POTENTIAL INTERMEDIARY ORGANIZATIONS AND FUNDING LEVELS

ORGANIZATION	Low	High	FUNDING SOURCE
=====			
TAF	450	1100	CoFi
AAFLI	200	650	CoFi and 116e
TTC	300	600	CoFi [or RIE]
FTI	200	500	CoFi [or RIE]
PACT	420	1250	CoFi
.....			
ICMA (@ 40% municipal)	280	960	HUP, EPD II
Direct	420	1440	HUP, EPD II

TOTAL	2270	6500	
=====			

ANNEX D-VII

**USAID/THAILAND
AMP RESEARCH AGENDA**

**COMMENTS ON FINANCIAL SECTOR STRATEGY AND
DEVELOPING A POLICY AGENDA**

by
DR. DAVID DAPICE

MARCH 1990

128

COMMENTS ON DEVELOPMENT INDICATORS, FINANCIAL SECTOR

STRATEGY AND DEVELOPING A POLICY AGENDA

I. FINANCIAL SECTOR STRATEGY

USAID is in the process of refocusing its efforts in light of rapid growth in some of its recipient nations, and a desire to screen new aid with a view towards directly helping U.S. as well as host country interests. These changes are taken as a given. The comments focus on the content, scope, and style of assistance to the Thai financial sector which USAID may find to be productive.

A. Macroeconomic Indicators -- Levels, Trends, and Projections

One way of evaluating the financial system is to see if the outcomes it is supposed to influence are performing well. Are savings and investment high or low? Is the efficiency of investment reasonable? These comparisons are best made to nations that are now or were in the recent past at similar levels of per capita income as Thailand. Thus, comparing Thailand to Japan today is less helpful than comparing it to Japan in a much earlier period or to Korea in the 1970's. Looking at nations who have or had similar per capita income, Thailand is doing very well indeed.

Consider savings. Only one nation out of 30 in a comparable income range (\$500 to \$1500 per capita) had a savings/GDP ratio higher than Thailand in 1987 -- and that was not a comparable case. (It was Mauritius, a small island of only one million, with a booming tourist trade.) Thailand's current savings ratio is even higher than Korea's in the 1970's and early 1980's. Only the city-states (Hong Kong and Singapore), some oil exporters (Indonesia and Malaysia) and, of course, Japan are higher in the region, disregarding income.

Consider investment. The 1989 investment ratio of over 30% is higher than any nation under \$1500 per capita. Not only this, the efficiency of investment, crudely measured by the amount of capital needed to produce a dollar's worth of output (the ICOR) is the best of any healthy economy. This is, in part, due to a heavy inflow of direct private foreign investment for labor intensive industry.

Consider debt and inflation. A repressed and poorly functioning financial system typically leads to a rising burden of debt and inflation. Neither is a problem for Thailand. It has kept inflation in the single digits in spite of rapid growth and has a declining debt service ratio, from already modest levels of 13% in 1988. (That figure includes both public and private debt.) Projections of the current account deficit, which determines future debt, are that the modest deficit will shrink and possibly turn into a surplus by the middle 1990's.

Consider growth. Thailand has been growing about 7% per year since the late 1950's, and recently (since mid-1986) the pace has heated up to double digit levels. This is the fastest growth rate in the world in the 1987-1990 period. Projections are for high single digit growth to continue into the middle 1990's. Clearly, any reasonable analysis has to conclude that the macroeconomic indicators for Thailand are astonishingly favorable and cannot be used as evidence of a poorly functioning financial system.

B. Financial Indicators - Levels and Trends

Even if the macro indicators are positive, a finer grained analysis often shows up weaknesses in the particular parts of the financial system. What are the strengths and weaknesses of the Thai financial system? A comprehensive study recently completed by the World Bank on behalf of the Thai government reached the following conclusions:

1. The ratio of banking activity in the economy (technically M2/GDP) was high relative to most LDC's and equal to that of many OECD nations. It has increased sharply from under 40% in the early 1980's to over 65% in 1989. Furthermore, the concentration of firms within the banking system did not seem to result in excessive spreads between deposit and loan rates.
2. The stock market was moderately well developed compared to other Asian nations, but advancing in value very rapidly -- by a factor of ten from 1985 to 1989. (Separate analysis indicates that the ratio of market capitalization to GDP for Thailand in 1989 was as high as many European nations in 1980.) Foreign participation in the Thai stock market was growing quickly, and there were many new listings and offerings.
3. Notable shortfalls were found in the value of bonds relative to GDP and in the amount of leasing and factoring. Not mentioned were a lack of large insurance or pension reserves which would normally be major consumers of bonds.

Given these findings, it would appear that the areas most in need of attention are not banking or the stock market, even if current levels are used as a guide. If trends are considered, the conclusion is stronger. The Bank of Thailand has recently been aggressively liberalizing banking regulations on its own, and the rapid growth in stock issuance is propelling the ratio of stock market value to income higher than that found in all but a few nations around the world. Given the favorable savings and investment data, it is difficult to make a case that Thai growth has suffered due to deficiencies in either area.

On the other hand, there are clear indications of underdeveloped financial intermediation in the items mentioned above. For example, there was under \$1 billion of long term bonds outstanding at year-end 1988, and virtually all of these were issued by the government or state

enterprises. They were inactively traded, and a miniscule amount in an economy whose annual flow of income is over \$60 billion, and of investment of \$18 billion.

Likewise, life insurance company assets in year-end 1987 were also under \$1 billion, or less than 2% of total financial system assets. There were only four insurance companies out of 44 with major minority foreign interests (one was American), and they accounted for 3% of total assets. Again, these are very modest numbers.

Pension funds and leasing are so small that there is virtually no information on them.

The World Bank team noted several legal barriers impeding bond market development. Specifically, private (non-stock market listed) firms may not issue bonds, there are lengthy and cumbersome registration procedures, and there is an uncertain legal basis for trustee arrangements. Perhaps the biggest problem was that government bonds were not traded actively. The team suggested that this was a necessary first step before a corporate bond market could develop. Given all these problems, it is not surprising that a bond rating agency doesn't exist, but its lack makes it hard for small investors to evaluate corporate issuers. Support for more transparent and reliable accounting, and for bond ratings, would help with this particular problem.

The team made few detailed suggestions regarding insurance but several on leasing. They found the law either unclear or outright antagonistic to financial leasing, and suggested using the Convention on International Financial Leasing (signed by 55 nations in Ottawa in 1988) as a legal model. With legal changes, both bond issues and leasing could become practical alternatives for Thai firms and financial markets would begin to resemble those in more developed nations. More research is needed to understand the problems of insurance and pension reserves.

C. The Special Issue of Finance for Research and Development

There is wide agreement that Thailand will have to become a more efficient adapter and borrower of technology in a few years when its pool of low productivity labor is expected to shrink, driving wages up. Right now, the level of R&D spending in Thailand is shockingly low (about .2% of GDP -- a third to a half Korean or Taiwanese levels in the 1970's) and should be increased. One hypothesis is that R&D spending is hampered by a lack of finance, and that venture capital would allow much higher levels of private R&D -- levels that are now estimated near to zero, except for a few large firms.

The AID study team on R&D explicitly considered the reasons for low private levels of R&D spending. They concluded the main problem was that all available resources were being very profitably used in industry to maintain the very rapid growth rates with well known techniques. They also mentioned that using foreign expertise was common, and that there

were too few educated and experienced Thais who could do productive commercially oriented R&D. They developed an 11 point program, but rejected the hypothesis that financing was a significant barrier. This is not surprising. Target rates of return for venture capital are high -- much higher than loan rates of banks. If there are internal resources in a firm, they could be used for R&D, while loans are used for banks' activities. The reason for low activity has to be the low priority due to poor information, few qualified personnel, and lower perceived profitability than other investments provide.

D. Are United States' Interests Served?

Even if banks and the stock market in Thailand require only modest improvement, AID might concentrate on them if so doing would clearly benefit U.S. interests. Specifically, is it likely that U.S. firms would be major beneficiaries of improvements in banks or stock markets? The answer is no. In banking, there were nine foreign banks selected for consideration in the latest round of liberalization. Not one of these first cut banks was American. The foreign banks, whose licenses may be approved, will start from a commanding position. The United States' banks are concerned about inadequate capitalization, due in part to bad loans. They are not able to consider expansion, but are (in many cases) selling off assets or at least slowing asset growth.

Similarly, it is the rapidly growing "big four" Japanese brokerage houses, already well established in the region, that are a commanding presence. As markets in the region become more integrated, a regional (not just national) positioning is required. Only one American broker (Merrill-Lynch) is active in the region in anything but fund management, and it is not expanding market share. It would appear that foreign companies would be the major beneficiaries of U.S. assistance in these areas. In this regard, the March 1990 paper by M. Kobayashi, a Nomura Research expert, titled "Capital Markets in Developing Nations", presents an analysis very similar to AID's. Is it wise for AID to use scarce resources in this area? Will U.S. brokerage houses, already retrenching, accept years of investments to establish themselves in unfamiliar nations where long established European firms are losing market share? Or should AID concentrate on areas where Thailand is underdeveloped and U.S. firms have a greater comparative advantage? This will have to be discussed.

If AID has the patience to help the Thai government make the legal changes needed, the U.S. leasing companies might not only develop in their own right, but also assist in the expansion of U.S. exports. By mixing credits from AID, the Ex-Im Bank, and even involving OPIC, a cocktail of financing might finally make U.S. financing terms more competitive.

E. Project vs. Program Approaches

One problem AID has is that it is not well equipped to engage in the policy dialog that is supposed to be part of its new style. Direct

hires are rotated, and are unlikely to have both local knowledge and credibility as well as substantive knowledge in specialized areas such as financial markets sufficient to engage top level decision makers. Furthermore, it also lacks financial leverage in all but a few nations as its budget has shrunk. Furthermore, most ADC's have built up a high level of competence and have access to a variety of funding sources. How can AID influence policy when it is too often ill equipped to do so?

One solution is to continue doing what it has been doing. Develop projects that embody the principles of policy change and use the successful pilots as an example of what can be done. This is, in fact, proposed in terms of assisting with some urban environmental projects. It could also be done with leasing, perhaps in a way that helps the Thai government overcome the limitations of its cap on guaranteed borrowing by leveraging the amount of equipment that can be bought for a given amount of government backed loans, or leases.

It is harder to do this in some areas, such as bond issuance by private firms or building up insurance and pension funds. In those cases, offering expert help on comparative legal approaches, and providing studies showing the advantages of fuller financial intermediation might be beneficial. If there is a substantial backlog of infrastructural investments that need funding, a study showing the potential of pension and insurance companies in other nations to absorb bonds could be helpful. This would link the solution to a problem increasingly acknowledged (building and funding infrastructure) to a financial policy issue. Indeed, some of the most effective financial policy approaches might be put under the rubric of infrastructure improvements. By building a toll road that supports its full costs, floating bonds to finance it, and using that as an example of how infrastructure could be expanded, the need for both realistic user charges and reforms to support the bond market could be clearly perceived.

F. Summary

Neither the levels of the macroeconomic and financial indicators, nor their trends, support the proposition that Thailand badly needs support in banking or stock markets. Both are at good to superior levels and rapidly improving on their own. Nor would supporting these areas do much to help U.S. interests. Pension and insurance funds, and leasing are all underdeveloped and may eventually constrain growth. Working in these areas is more likely to help U.S. firms.

In deciding how to assist financial markets the difficulty of maintaining a policy dialog should be kept in mind. Using a different hook to get attention, such as an infrastructure project, may be a better way to secure the necessary changes in Thai legal statutes and regulatory practices.

APPENDIX TO FINANCIAL STRATEGY COMMENTS

1. When to Measure?

The Thai stock market is growing rapidly. Its market

capitalization has risen over 13 times since 1985, and tripled in 1989. The figures below indicate the progress made.

Year	1980	1985	1986	1987	1988	1989
Market Value, 12/31 (in billion baht)	29	50	75	137	222	660
As % of GDP	6	5	7	11	15	39

Under these circumstances, the exact timing of analysis can be crucial in ranking Thailand relative to other nations. If the value were to double to triple in the next three years, the ratio to GDP would actually be higher than in the U.S.! Turnover in 1989 equalled the previous ten years combined, and also tripled in value during the year. The number of listed companies rose by over 20% in 1989. Different viewpoints about the relative underdevelopment of the Thai stock market are understandable, given its rapid evolution. Year-end 1989 figures are used in this appendix, as that seems to be most relevant.

These comments apply, though in a more moderate form, to the usual measure of banking activity in the economy, M2/GDP. That ratio has risen from about 40% in 1980 to 65% to 70% by 1989, depending on the estimates used. Thailand's ratio could now be higher than that of the U.S.!

2. Do stockmarkets drive growth, investment, or savings?

This question is not meant to question the proposition that a well functioning stockmarket can be helpful to growth by allowing savers and investors one more option for financial intermediation. That is clearly the case. On the other hand, many analysts would argue that nations can find substitutes to a large stock market presence and still function well. The table below shows various nations in terms of their ratio of stock market valuation to GDP and their growth rate of per-capita GDP over a long period. The general impression is that there is not a tight relationship between the relative size of a stockmarket and the growth of a country.

Per-Capita GDP Growth 1965 - 87	Stock Market Valuation/GDP	
	Over 50% = HIGH	50% or Under = LOW
HIGH (Over 3.5%/yrs)	Japan, Korea, Taiwan, Singapore, Malaysia	Thailand, China Indonesia
MEDIUM (2.5% to 3.5%)	Canada	France, Germany, Pakistan
LOW (Under 2.5%/yrs.)	U.S., U.K., Australia	India, Philippines, Spain

A simple table of this sort does not establish anything scientifically, although it does suggest that many nations have managed long periods of growth with only modest contributions from their stock markets. If the lack of a stock market is causing a gap which is otherwise hard to fill, then the rapid growth of a stock market would be expected, as is now true in both Indonesia and Thailand, for example.

Another more systematic approach involves the use of regression analysis. If stock markets do, in fact, have an impact on growth, investment and savings rates then it should show up in a statistically significant way. For example, if the services a stock market offers are captured by the ratio of stock valuation to GDP, then the following equation can be estimated:

$\text{Investment/GDP} = \text{constant} + b_1 * (\text{Stock Value/GDP})$ or, for GDP growth,

$\text{GDP Growth (in \%/yr.)} = \text{constant} + b_1 * (\text{Stock Value/GDP})$

These regressions were run and the results are as follows.

For the simple regressions relating GDP growth in the 1980's, GDP per capita growth from 1965 to 1987, or the ratio (in 1987) of Investment to GDP, the results were not significant. That is, it appeared that there was no reliable relationship between stock market value over GDP and growth or investment ratios. There was a significant ratio for Savings over GDP and stock value over GDP. An increase in the ratio from .4 (about where Thailand is now) to .6 (where Korea is now) would raise savings by 2% of GDP.

However, if a refinement is made, results improve. Adding a variable to capture the effect of relative per capita income helps the relationships of growth to stock values. Investment ratios are still insignificant, however. Savings remains significant. Specifically, an increase from Thai to Korean levels would raise GDP growth by about one-half of one percent, and GDP per capita growth by a similar amount. Savings ratios now improve by 2.5%.

Overall, it appears that having a stockmarket is a plus for growth rates (possibly through more efficient capital utilization) and savings. Of course, it is likely that there are positive effects for other forms of financial intermediation also, but data are not available to test them.

II. DEVELOPING A POLICY AGENDA

As AID cuts back on the level of assistance to many nations, including ADC's, it has emphasized the importance of policy dialogue. The emphasis on sustainable growth, open markets, open societies, and mutual interest are supposed to be promoted through various types of representations, lobbying, and negotiations. This comment explores some implications of the proposed shift.

125

As many AID professionals already appreciate, the only leverage AID has in ADC's is intellectual. Since funds are limited, AID will not be able to induce long-run rational behavior by offering a significant quid pro quo. Only by convincing the concerned officials that a policy is congruent with their goals, and by polite lobbying among the private groups that stand to benefit, is there a likelihood that AID will noticeably accelerate movement towards policy reform. The strategy paper properly notes the benefits of moving to a more open society, but it also cites there are some costs. Narrow interest groups may block policies that impinge on their income or status, even though they are manifestly desirable from an overall standpoint. AID can help establish the intellectual and moral high ground by sponsoring research and pilot projects. It can also help organize coalitions of beneficiaries who may not otherwise perceive their small individual benefits are worth pursuing. This type of activity can offer surprising dividends, particularly if it is used in a patient and timely manner, so as to take advantage of events that may focus attention on the particular topic of concern.

A second observation is that it is difficult to find people to engage skillfully in policy dialogue. Both local and substantive knowledge is needed. Often the past local record of the person will be of importance in how local decision-makers evaluate the reliability of the professional, and their willingness to make him or her seriously. If local AID staff are to be reduced to three and have administrative duties, it will be necessary in most cases to hire in outside people with the required skills. (Direct hire personnel are also candidates, but the combination of AID rotation policies and the need for both local and specialized knowledge work against the right mix of skills being available very often.) Even if AID goes outside, it may still find it hard to hire precisely the right people. Without them, it may not be able to be a full participant in the policy dialogue. Given that the ADC's have solved many of their problems, it is not surprising that they will have increasing confidence about their ability to deal with policy analysis themselves. AID may have to define itself a role as a niche player, not a general participant.

If AID does become a niche player, it should concentrate on policy discussions which bear directly on its program activities. If AID is supporting activities in a few selected areas, it should have better information about and access to the significant decision-makers in those fields. However, the level at which the policy needs to be changed may not always be the level at which the detailed problem is most discussed. Traffic congestion may be caused, in part, by subsidies to gasoline. Poor tax policies may limit the positive interventions that can be made with worker training. AID may have to be content with pointing out these linkages rather than expecting to take part in the discussions about gasoline pricing or tax policy.

One strategy, suggested in the financial sector comments, is to create a successful pilot project which embodies the policy changes that

178

AID believes are desirable. Putting together a deal for a toll road in which the tolls are high enough to pay all capital and maintenance costs would be an excellent way to argue for proper pricing of public infrastructure, and even for a private role in providing it. Helping firms lease gas turbines which generate electricity, and clearing this with EGAT (the Thai electrical authority), is a good way to show how leasing and private electrical generation can be beneficial. This type of pilot projects could lead to legal and administrative changes which are consistent with Thai and U.S. interests. Since many U.S. policy concerns boil down to proper pricing via user charges for infrastructure or for fuel, electricity, etc., this approach could be fruitful. It also might lead to a greater private sector role in some activities now subject to government monopolies.

There are other cases where market pricing may not be successful. If there are externalities involved, then taxes or subsidies will be needed to get the right amount of activity in a particular field. For example, if a firm trains a worker only to lose him to a competitor who doesn't train, it will soon decide that training doesn't pay. If all firms are charged a refundable tax that would be waived if they spent an equivalent amount on worker training, more firms will train and fewer workers will be lost. More training will result. Working with employer groups to develop policy proposals acceptable to all sides may be within AID's new terms of reference. The idea of using private interest to direct funds, even for training or R&D, is one that deserves serious consideration. When private funds are at stake, it is more likely that the funds will be used in a focussed and efficient manner. AID should seek to harness private interest, even when taxes or subsidies are needed to make the market work better.

A point should be raised for debate. Some have argued that if Thailand's democratic structure and relatively sluggish response to problems caused by very rapid growth is taken as a given in the short to medium term, then a slower (7% to 8% real annual GDP growth) may be more sustainable and preferable to trying to go as fast as possible. Others argue, to the contrary, that Thailand should try to go as fast as possible to take advantage of a window of opportunity that may close later in the decade as other countries become more serious competitors. Many of AID's investments are really responding to the pressures caused by very fast growth leaping beyond the ability of the political, administrative, or even economic system to cope. The problems -- growing inflation, urban crowding and congestion, increasingly severe pollution, poor land use planning, inadequate skills and infrastructure, and disturbing increases in income inequality -- can eventually be solved. Many of them will slow down growth by themselves if the system were left to solve the problems itself. With perceptive intervention, short run growth would also be slowed in many cases (as polluters pay to clean up, for example), but longer run growth would be higher. It may be that AID should aim to support a rapid rate of sustainable growth that has the right composition and quality, not try mainly for the most rapid growth rate possible, with a few environmental quibbles.

171

This point is raised, in part because there have been serious suggestions that compulsory or coercive measures be undertaken so as to accelerate growth. The financial policy study suggested looking at forced savings plans, such as that used by Singapore, so the current 25% savings to income ratio would rise even higher. There may be conflicts between accelerating growth and allowing free choice, and AID should be clear about which it finally supports.

A final point is raised. In many cases, foreign countries and businesses hold a commanding position in Thailand and are apt to benefit far more than U.S. businesses if Thai markets are opened wider. In such cases, AID will have to decide if it wants to push vigorously for open markets in those areas, even though U.S. interests might not much benefit, but Thai and foreign interests may. It may be that given the proficiency of other nations in arguing for their own interests, that the U.S. should focus most heavily on opening up areas where U.S. firms are more likely to benefit. This insight may help guide data gathering during program planning, and may direct efforts to particular activities.

170

AMP Research Agenda

Study Team Members and USAID Managers

Development of Thai Financial Markets - Price Waterhouse

Team Leader: Dr. Willard Sharpe, Consultant
Team Members: Mr. John Bowles, Consultant
Mr. Mark Camstra, Price Waterhouse
Ms. Julia Philipp, Price Waterhouse

USAID: Mr. James Grossmann, PDS/PSI
Ms. Judith Kocher, PDS/PSI
Mr. Peter Thormann, PRO

Enhancing Thai Private Sector Research Development and Engineering Capacity - Thailand Development Research Institute (TDRI) with SRI International

Team Leader: Dr. Chatri Sripaipan, TDRI
Team Members: Mr. Prayoon Shiowatana, Technological Productivity Association
Dr. Mingsarn Kaosa-ard, Chiang Mai Univ.
Dr. Virach Aphimeteetamrong, Chulalongkorn Univ.
Dr. Joe Anderson, TDRI
Mr. Peter Brimble, SEAMICO
Ms. Amornrat Apinunmahakul, TDRI
Dr. Richard Johnson, SRI International
Mr. James Golub, SRI International

USAID: Mr. Douglas J. Clark, TR
Mr. Peter Thormann, PRO

Environmental Issues for an Advanced Developing Country

Team Leader: Dr. Theo Panayotou, HIID
Team Members: Mr. David Foster, RTI
Dr. Malcolm Baldwin, Consultant
Dr. Teerana Bhongmakapat, Chulalongkorn Univ.

USAID: Mr. Douglas Clark, TR/NRE
Mr. Michael Philley, TR/NRE
Mr. Peter Thormann, PRO

Private Sector Participation in the Development of Thai
Infrastructure & Utilities - Center for Privatization

Team Leader: Mr. Howard W. Edwards, Center for Privatization
Team Members: Dr. Gabriel Roth, Center for Privatization
Dr. Phiphat Thaiarry, Chulalongkorn University

USAID: Mr. Donald Hubbard, RHUDO
Mr. Peter Thormann, PRO

Private Participation in the Development of Labor Force Skills -
Ernst & Young

Team Leader: Ms. Sydney Lewis, Ernst & Young
Team Members: Dr. Mary Thormann, Consultant
Mr. Richard Smith, Siamamerica
Dr. Matt Seymour, Consultant

USAID: Mr. James Grossmann, PDS/PSI

Fostering Democratic Pluralism

Team Leader: Dr. William S. Cole, Consultant
Team Member: Dr. Somboon Suksamran, Chulalongkorn University

USAID: Dr. Gary Suwannarat, PDS/PSI

Comments on Financial Sector Strategy and Developing a Policy Agenda

Team: Dr. David Dapice, Tufts University

USAID: Mr. Peter Thormann, PRO

170